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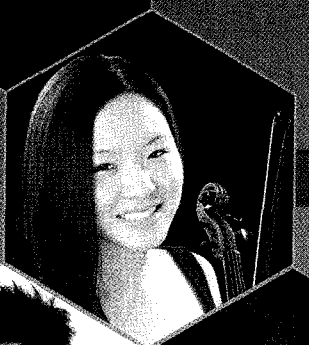

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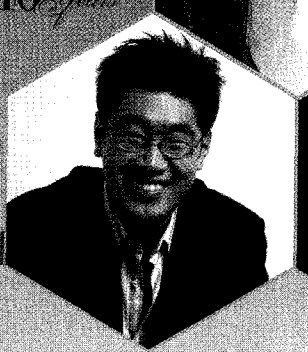

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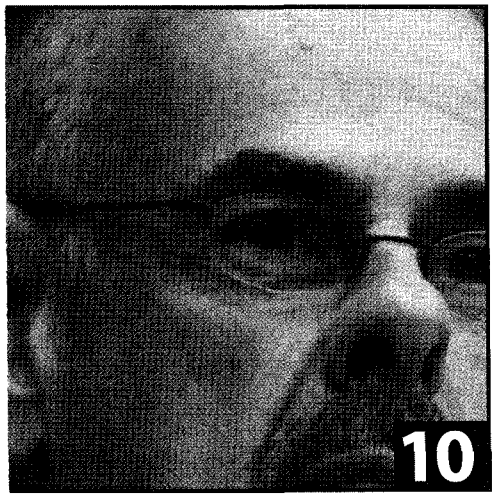

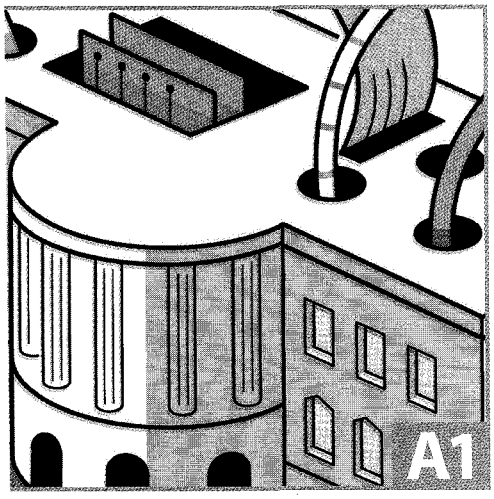

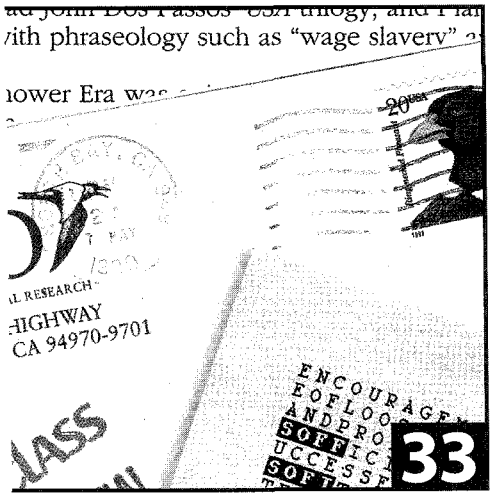

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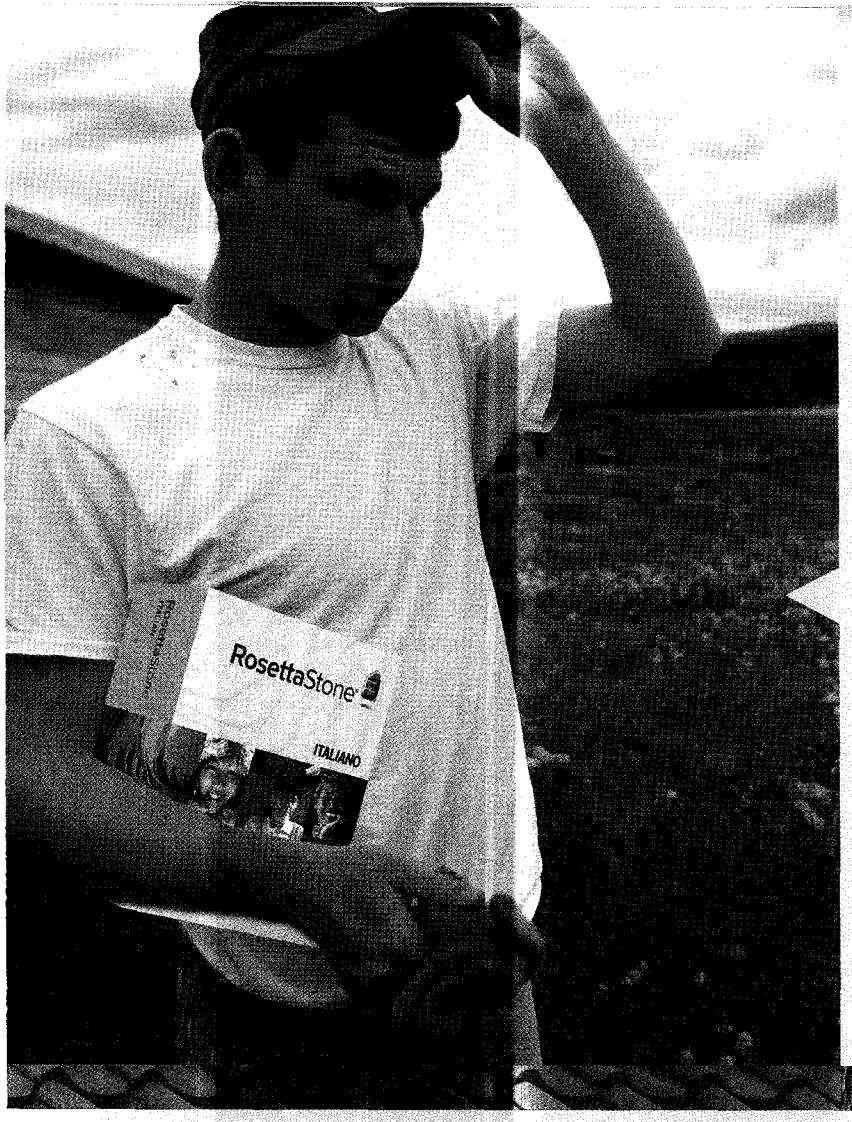

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Editor's Note

PAUL GLASTRIS

Next-Stage Capitalism

In February, the nonpartisan Washington-based Information Technology and Innovation Foundation released a study which, if not the worst economic news of the moment, wasn't exactly cause to cheer, either. The study compared the United States and thirty-nine other countries on their "innovation-based global competitiveness"—things like the number of new business start-ups, availability of venture capital, high-speed broadband access, and corporate and government R&D spending. In the overall rankings, the U.S. came in a respectable sixth, behind countries like Sweden and South Korea. But in terms of progress on these indicators since 1999, we scored dead last.

The financial crisis and the relative decline in our capacity for innovation may seem like separate problems, but they are connected in ways that bear examining. Both have their roots in the end of the last decade. The U.S. experienced astonishingly healthy economic growth in the 1990s, driven primarily by the diffusion of ever-cheaper computing power and the expansion of the Internet. When that boom ended, with the bursting of the dot-com bubble in the spring of 2000, it was a warning sign: there was too much capital chasing too few good investment opportunities. For healthy growth to resume, new frontiers of enterprise needed to be opened up, new technologies and markets made available for investors and entrepreneurs.

If you were in the venture capital business back then, or read *Wired* magazine, or listened to then presidential candidate Al Gore, you had a pretty good sense of what those next frontiers were. They included renewable energy, high-speed broadband, and the extension of the IT revolution into hitherto-untapped sectors of the economy, like health care and the electric grid. These were the new "platforms," as the tech gurus called them, on which entrepreneurs and investors would build new companies, jobs, and wealth.

Yet to open up these new opportunities would have required substantial government investment and guidance. And that ran counter to the instinct and ideology of the newly established Bush administration. The president wasn't a tech guy. He was an oilman, as was his vice president. The first two Bush treasury secretaries hailed from, respectively, the aluminum and railroad industries—hardly the vanguard of the twenty-first-century economy. Moreover, Bush and his advisers preferred to trust the markets to find new investment opportunities on their own, unaided by government—save for the provision of tax cuts for the wealthy and regulatory favors for established industries.

To the extent that anyone in Washington provided guidance to the markets during the Bush years, it was Alan Greenspan. As Fed chairman he kept interest rates low, urged the public to buy or refinance homes with adjustable-rate mortgages, and refused to exercise his statutory power to regulate complex new debt instruments, for fear of dampening "innovation" on Wall Street. We know where all that led.

It is painful to consider how different the world would be today if the trillions of dollars that Washington helped direct into real estate and its attendant Wall Street exotica had instead been invested in the new platforms that technologists were talking about eight years ago. What if, instead of constructing more exurban tract homes that now sit empty, we'd connected existing homes and businesses by fiber-optic cable to the Internet, the way they have been in countries like South Korea and Japan, where download speeds are orders of magnitude faster than they are here? What if, instead of pouring our pension fund money into collateralized mortgage obligations, we'd invested in digitizing the electric grid, so that our entire electric system could be made greener and more efficient and entrepreneurs could get rich creating devices and software to help homeowners save money on their electric bills?

Had we done this, we might have avoided at least some of the catastrophic consequences of the real estate bubble. We might also have enjoyed more robust job growth and real income gains over the last eight years, and found ourselves in a more competitive economic position with the rest of the world.

The good news is that we're not *that* far behind our strongest competitors, and the next-stage-of-capitalism opportunities are still out there—as we explain this month in a special report on entrepreneurship sponsored by the Ewing Marion Kauffman Foundation (pages A1–A15). We also have a new president who actively embraces the idea that government must play a lead role in seizing new economic opportunities, and a Congress that largely agrees with him.

Ironically, the economic downturn itself presents an opportunity—presidents have the most political leeway to make bold moves when the skies are darkest. Lincoln built the transcontinental railroad during the Civil War. FDR extended electric power throughout the nation in the midst of the Great Depression. These projects transformed American life, making possible huge gains in productivity and the creation of whole new industries. They were the platforms of growth in their day. It's time we built the platforms that are right for ours. WM

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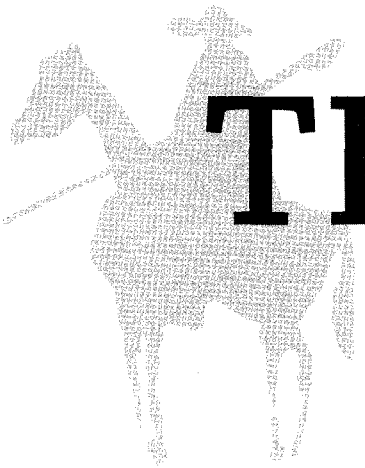

TILTING *at windmills*

By Charles Peters

Affordable health care … why would we want that?

Proposals for health reform now being considered by Congress include a "public" option that would give consumers a choice between private health insurance and insurance provided by government. The usual argument against the public plan is that the government's ability to control costs—I am now quoting the *Wall Street Journal*'s Gerald Seib—"doubtless would make its plan the cheapest one, sucking consumers away from private insurers and opening the way to universal government health care."

Well, just what's wrong with that? If the government can do the job more efficiently, good for the government and good for us!

> Larry Summers and Timothy Geithner speak eloquently about the sanctity of contracts when it comes to the AIG bonuses, but they seem to view union contracts with the auto industry as always renegotiable.

From Gettysburg to Kabul

If you've ever visited the battlefield at Gettysburg, stood at the point where Pickett's Charge began, and looked up the steadily rising ground leading to the Union position, you realize how little chance the Confederates had. Not only did the Union have a dominating position, it also had more troops. Furthermore, about two-thirds of the way up the incline there is a fence. It was there the day of the charge, meaning Confederate soldiers provided even clearer targets for the Union guns as they awkwardly climbed over it.

It is painfully obvious that Robert E. Lee should not have ordered the charge, but saved his troops for another battle where victory would have been more likely. This is the argument made by Col. Douglas Macgregor in the April *Armed Forces Journal*. The author is not just talking about Gettysburg and the Civil War, but about the broader subject of battles and wars like Vietnam and Iraq that we should not have fought or be fighting today.

Even when a war is justified in the beginning, as with Korea and Afghanistan, it may settle into a stalemate that consumes "America's military, economic and political reserves of strength." In such cases, Macgregor argues, it is wise to end the war as Eisenhower ended the futile mutual slaughter that the Korean War had become.

The same argument may well apply to Afghanistan today. As Macgregor points out, "If the foreign military presence provokes local hostility—and it usually does—the result will be more fighting, not stability."

George Washington was the great master of avoiding battles that could not be won in favor of conserving his forces for those that had to be fought or could be won. My wife recently came across the words Washington used to describe his approach: "a strategy of enlightened procrastination."

Responders without a clue

The Project on Government Oversight (POGO) recently asked what happens when a Pentagon official overcomes his fear of his bosses and nervously dials the hotline of the Pentagon's inspector general. Here's what happens: the call is answered not by a sensitive investigator skilled at getting the frightened to talk, but by a college student to whose employer the Pentagon has contracted out the job of answering whistle blowers' calls.

The un-blown whistle

POGO's director, Danielle Brian, declared in a speech a few weeks ago, "Whistle blowers have practically disappeared from the Pentagon in recent years." As the head of an organization that encourages government employees to speak out about what's going wrong in their agencies, she knows what she's talking about. Having heard the speech, I asked her to lunch to find out if she had any explanation for this disturbing trend. Her answer was that there has been a growing tendency among Pentagon employees, both civilian and military, to look

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forward to lucrative jobs with defense contractors after they retire. Both the income from their retirement pay and their salary with the contractor become firmly embedded in their plans for the future.

As this trend has grown, so has another—a steadily narrowing definition of conflict of interest that would disqualify a Pentagon retiree from working for a defense contractor. In fact, the only prohibition is against working on the same contract he had overseen at the Pentagon. Obviously, a wide range of jobs remain available to reward the employee who has been kind to the contractor. This means that employees have every reason to be generous to military contractors and no reason to blow the whistle on contracts that cheat the taxpayer—none other than those quaint old notions of duty and honor.

> Why does the *Washington Post*, while cutting back its newsroom, send Robin Givhan to Paris and Milan to cover fashion shows?

Will Obama fight?

I was delighted by Defense Secretary Gates's proposal to overhaul the Pentagon budget. The urgent need for reform is suggested by this statement in a recent article in *Politico* by Winslow T. Wheeler: "The defense budget is now larger than at any point since 1946, but the Army has fewer combat divisions than at any point in that period, our Navy has fewer war-fighting ships and the Air Force has fewer fighter and attack aircraft."

The defense budget has, for more than sixty years, been based primarily on preparing for a war against Russia that has never been fought, leaving us tragically ill-equipped for the wars we have actually fought in places like Vietnam, Iraq, and Afghanistan. Of course, the military-industrial complex now has a major stake in preserving the expensive weapons systems required for a war with Russia or China. Thus the *Wall Street Journal*'s follow-up story on the Gates proposal was headlined "Defense Overhaul Draws Wide Rebuke: Plan Denounced by Contractors, Lawmakers and Unions."

Is Obama willing to take on the tough fight needed for the Gates proposal to prevail? I'm troubled by the fact that a decision was made to let the proposal come from Gates instead of from the White House. Let's hope that Obama chose this course because having the proposal originate with Gates stamps it as bipartisan.

When he has not

I'm more troubled that Obama has apparently chosen not to fight for his proposal to prohibit subsidies to farmers earning more than $500,000 a year and putting a ceiling of $250,000 on the subsidies any one farmer can get. After the plan drew immediate and strong opposition from the farm lobby, it was omitted from current budget proposals by both houses of Congress.

One step the administration could have taken toward sensible compromise was to make clear that the $500,000 was net, not gross, income, but that route has not been taken, and the administration seems to be abandoning reform of farm subsidies.

What is most disturbing about this is that when Obama introduced Peter Orszag as his new budget director the one budgetary outrage he singled out to deplore was farm subsidies for the rich.

Bad but vital

What are the worst-performing government agencies? The answer is not comforting. Eight of the bottom eleven—ranking between twenty-seven and thirty-six in a survey of 210,000 government employees—are agencies with crucial functions, including the Security and Exchange Commission and the Departments of Agriculture, Education, Interior, Housing and Urban Development, Veterans Affairs, Transportation, and Homeland Security. All of which should remind Obama that one of his least mentioned but most important challenges is reforming the bureaucracy.

What would George Washington do?

I know some of you are saying Obama can't hope to win all these battles. Shouldn't he follow George Washington's advice and be careful to fight only those he can win? But there is a distinction between lost military battles and wars that cost lives and political battles that do not. In fact, the failure to fight some political battles—for example, for universal health care or for protecting worker and consumer health and safety—would itself cost lives.

Bailout? What bailout?

On another troubling oversight front, the *Washington Post* reports that Elizabeth Warren, the chair of the congressional oversight panel on the banks' use of bailout funds, is complaining that "the Treasury Department has brushed aside her team's efforts to get information." And, dismayingly, the *New York Times* reports that Neil M. Barofsky, the Treasury Department's internal watchdog of how the bailout money is being spent, is "particularly critical of the Treasury Department's refusal to demand detailed information from banks and other financial institutions about what they are doing with the money they receive."

Ready, willing … and unemployed

Able and energetic young people who worked to elect Obama are still not being hired to work in his administration. Their plight has even attracted the attention of the *Washington Post* ("Young People Who Want to Work for Obama Wait for a Call") and the *Washington Times* ("Ready, Willing, Able—And Waiting for Obama"). I had written in our last issue about the need to get these people into the government and am puzzled that Obama is not seizing this chance to transform the civil service with an infusion of talent and commitment.

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The truth is that too many of the civil servants he has inherited are either modestly talented or more interested in their job security and benefits than they are committed to their agency's mission. What Obama should do is make sure that those smart enough to join his campaign, and dedicated enough to make it a smashing success, get a fair shot at the government jobs they seek. If another applicant is more skilled, he or she should get the job. But if the Obama worker is of greater ability, the job should go to him. Then the administration will have a workforce that is not only able, but is committed to making its policies work.

Wanted: Tax inspector named Steve with red hair, mean whiskey collection

That the government's present hiring system badly needs shaking up is made clear by a recent study of government interns by the Partnership for Public Service. Aptly entitled *Leaving Talent on the Table: The Need to Capitalize on High Performing Student Interns*, it reveals that the federal government hires only 6.6 percent of its interns. In the private sector, the comparable rate is 50.5 percent. The reason for this discrepancy is, I suspect, an old civil service institution that the report is too kind to mention: the Buddy System, under which job descriptions are written with pals of current civil servants in mind, and the pals are given inside tips on how to navigate the hiring process. The result is an incestuous civil service that too often seems dedicated to keeping outsiders out, no matter how talented the outsiders may be.

Frank and Larry

I tried to hire Frank Rich more than thirty years ago when he first embarked on his career in journalism. Jim Fallows, who was working here at the time, and I thought so highly of Rich's potential that we actually took him out to lunch. (In those days, as during most of the *Monthly*'s life, when barely surviving was the rule, our constant hope was that the other fellow would pick up the check.) But even our one day of extravagance couldn't succeed in wooing Frank from his yen for New York. This is all a prelude to saying Frank has more than achieved the potential we saw back then. His thoughtful opinions, unlike those of many of his peers, are supported by reporting of facts new to most readers. For example, a recent column revealed that Larry Summers had worked as a consultant for a hedge fund while serving as president of Harvard, and then reminded us that, also while president of Harvard, Summers had criticized Harvard faculty members for moonlighting. This perfectly captured what makes Summers so scary—an arrogance that precludes self-criticism or really listening to criticism from others.

There's contracts, and then there's *contracts*

Larry Summers and Timothy Geithner spoke eloquently about the sanctity of contracts in discussing the AIG bonuses. But they seem to view union contracts with the auto industry as always renegotiable. "We run roughshod over some contracts and not over others," David Skeel, a professor of law at the University of Pennsylvania, tells the *New York Times*. Will someone in the administration please explain how it distinguishes between the contracts that are sacred and those that can be run roughshod over?

> I am puzzled that Obama is not seizing the chance to transform the civil service with an infusion of talent and commitment.

Cozy and cozier

To understand Larry Summers's empathy for Wall Streeters, you have to look no further than the $2.7 million he received for speeches from Wall Street in 2008 alone. Among the firms that paid Summers for speaking were Goldman Sachs, Citicorp, J. P. Morgan, and Lehman Brothers. Unfortunately for Lehman, Summers arrived at the White House too late to save it. Whether he would have done so or not is open to question, since there is evidence that both Summers and Geithner have had a softer spot in their hearts for Goldman than for Lehman, its longtime rival.

Politics looks better

The *New York Times* Sunday Style section is proclaiming, "Community Organizing Never Looked So Good." After all, Obama was a community organizer, and look what happened to him. This seems to be the reasoning behind the movement. But I have a word of caution: Obama tried community organizing and quickly decided that politics was a more effective way to change things.

Back in the 1960s, I observed the efforts of Peace Corp volunteers to perform what we called "community development" in Latin America and of Lyndon Johnson's War on Poverty workers to engage in "community action" in this country. Both efforts involved community organizing, and both proved enormously difficult. Successes were inspiring, but rare. My own conclusion at the time was the same as Obama's in the 1990s.

Good to (not so) great

I congratulate the *New York Times* on its series revealing the breakdown of New York's workers' compensation system. Every state has such a program, and they were once considered models of how to compensate victims without costly lawsuits. But one of the painful lessons of experience is that even the best government programs can go bad. For example, the rural electrification agency performed an immense public service in the 1930s by bringing power and light to farms all over America. But when we looked at the agency in the early 1990s, it was helping finance country clubs as it tried to find some way to survive even though its original mission had been accomplished.

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The invisible hand is busy at the moment

The workers' compensation and rural electrification examples demonstrate the need for periodic thorough examinations of every government program, even those thought to be great. But who's going to do the investigating? Every day seems to bring the story of another American newspaper in trouble. Six thousand newspeople lost their jobs in just the last year. So it seems likely we will get less depth reporting at the very time we need more of it.

This is why I think it is essential for us to try to think of ways to help the newspapers and magazines that do depth reporting not only survive but prosper. This almost certainly will involve finding a way to get Internet users of this kind of content to pay for it.

> It is time for the United States to cut off economic and military aid to Israel unless it immediately begins good-faith negotiations of the two-state solution.

I was disturbed to see my old friend Michael Kinsley—with whom I usually find myself in admiring agreement—come out against the user-pay solution. The faith he expresses in "the market" to find some way other than newspapers to produce the kind of journalism we need contrasts sharply with his usual skepticism. What we need—like quality health care for all—is often not supplied by the market. It's up to smart people like Mike to figure out how society can get what it needs in spite of the sometimes perverse incentives of the market.

Unfashionable

It should be noted, however, that the survival of our great newspapers would be helped by better judgment on their part about how to spend their limited resources. For instance, why does the *Washington Post*, while cutting back its newsroom, send Robin Givhan to Paris and Milan to cover fashion shows? Do we really need to know, as one indignant Letter to the Editor writer noted, about "clunky orange boots with 5-inch soles"?

Michelle, don't go too Jackie O!

This reminds me of another worry. I pray that Michelle Obama does not take seriously the role of fashion leader that the media wants to give her. I wish I had seen her wear the same dress twice on the recent trip to Europe, but I did not. And I wish I had not seen a photograph of her elegantly clad social secretary, Desiree Rogers, sitting with *Vogue's* editor, Anna Wintour, at a recent New York fashion show. And I most definitely wish I had not read in an accompanying article in the *Washington Times* how "the Obama administration invited top editors of three of Washington's local luxury lifestyle magazines—*Capitol File*, *DC* magazine and *Washington Life*—to a meeting where they discussed, among other things, how President Obama and first lady Michelle Obama can embrace Washington's glittery social scene."

Two states—or no dice

Reports from Israel indicate that the Netanyahu government opposes a two-state solution to the Palestinian problem. It is time for the United States to play its trump card: tell Netanyahu that we will cut off economic and military aid to Israel unless his government immediately begins good-faith negotiations of the two-state solution.

The right wing of the American Jewish community will be outraged by such a threat, but most American Jews want to do all that is reasonable to achieve peace in the Middle East. They don't like the intransigence of the right wingers. Unfortunately, because the right is better organized—think AIPAC—it too often succeeds in intimidating our political leaders.

Credit where credit is due

Several years ago, I wondered in a Tilting item why the Bush administration, then badly in need of repairing our relations with Islam, didn't make sure that Muslims around the world knew about how we had come to the rescue of their co-religionists in Bosnia and Kosovo. So I was delighted to hear Richard Holbrook finally trumpet the point recently on Fareed Zakaria's CNN show.

Hope comes to Jakarta

Here's something I think Obama deserves a bit of credit for: the recent triumph of moderates and the decline in support for Islamic extremists in the elections in Indonesia. The *New York Times* report of the election results did not mention Obama, but I can't help thinking his childhood years in Indonesia and his outreach to Islam must have had at least some impact on the election result.

When cool is too costly

Beginning in the 1950s, Americans—through foreign travel and increasing incomes—learned to appreciate differences in foods, wines, cars, and other products that made them more sophisticated. The problem is that it also made many of them want to show that they had better taste than the other fellow. Thankfully, I see signs that this kind of snobbery may have finally begun to decline, a victim of the recession. You see people buying things less because they're hip and more because they're affordable. This is the way it was when I was growing up in the 1930s. I hope we see this trend accompanied by a related but more important one from that period, which was for people to place a greater value on finding things in common with their fellows than on feeling superior to them. WM

Charles Peters is the founding editor of the *Washington Monthly*.

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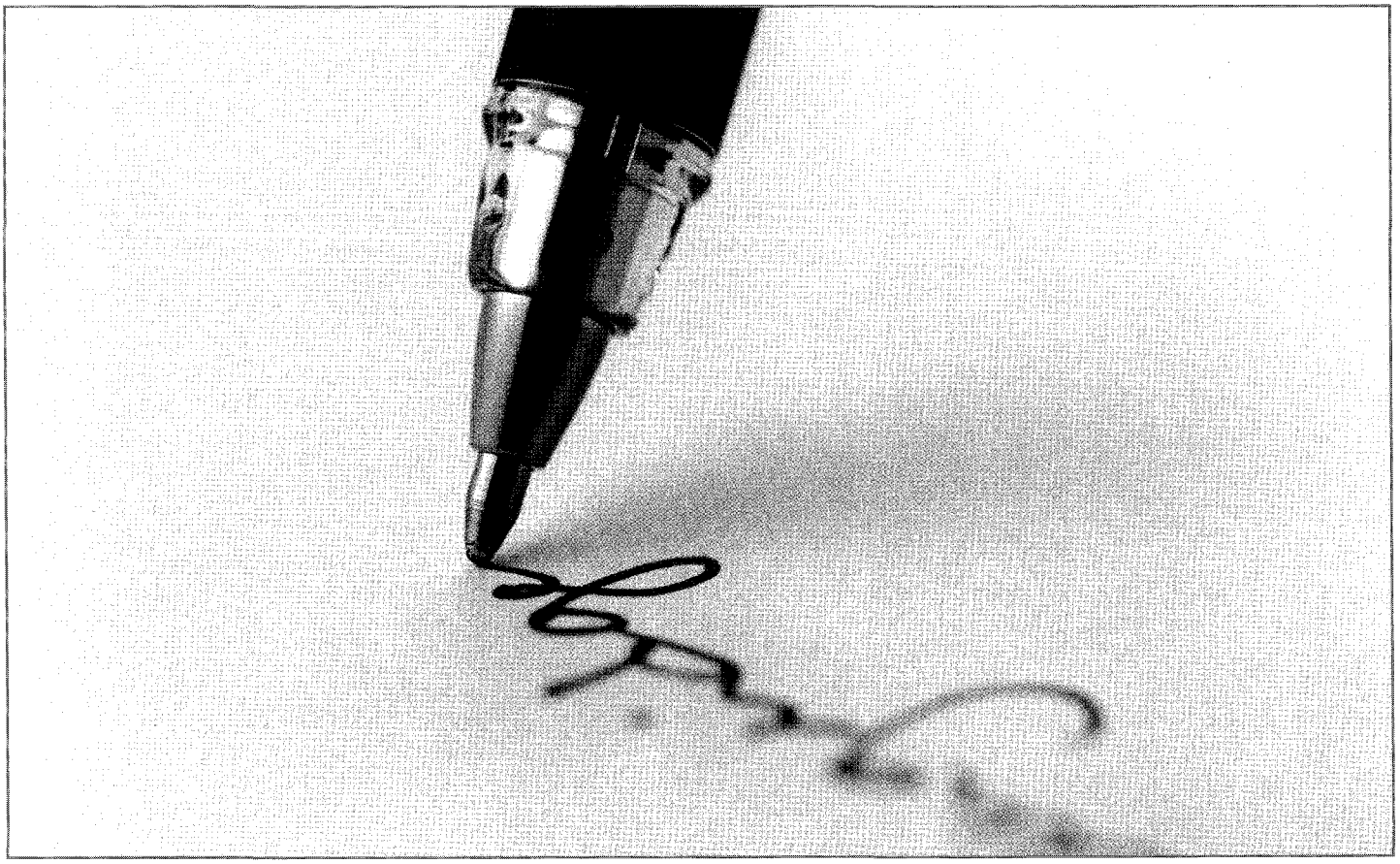

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Marathon Man

Henry Waxman's climate change bill won't make it into law this year. That's why he's the right guy for the job.

By Charles Homans

It's a drizzly spring evening on Capitol Hill, and an Indiana congressman has placed himself in an unenviable spot: between Representative Henry A. Waxman and the tobacco industry.

At issue tonight on the floor of the House of Representatives is a piece of legislation that Waxman, a Democrat from California, has been pursuing, Ahab-like, for a decade and a half: a bill that would place cigarettes under the regulatory authority of the Food and Drug Administration. Waxman's opponent, Republican Steve Buyer, is on the floor pressing for a more industry-friendly alternative: the creation of a new agency called the Tobacco Harm Reduction Center, which would encourage smokers to begin quitting by moving from cigarettes to, say, smokeless tobacco. "You see," Buyer explains, "it is not the nicotine that is killing people—it's the smoke! It's the smoke! It's the smoke that's killing people." Someone coughs in the back of the room. Buyer doesn't miss a beat. "I heard somebody coughing," he says. "It's the smoke! I'm telling you."

Waxman, a former smoker himself, is unfazed. He has been fighting the tobacco wars since Buyer was in law school. His bill is the end point of years of machinations aimed at battering the tobacco industry's credibility and clout, piece by piece. It was Waxman who, in 1994, hauled seven tobacco-

Associated Press

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company CEOs before his subcommittee to testify that they did not believe nicotine to be addictive. (Their company scientists, who testified later, said otherwise.) And it was Waxman and his investigators who extracted damning internal documents, one after another, from R. J. Reynolds and Philip Morris, showing that cigarette manufacturers had knowingly concealed the hazards of what they were selling, documents that set the stage for the multibillion-dollar judgments the companies were forced to pay out a decade ago.

"This Buyer substitute is deeply flawed," Waxman says when it is his turn to speak. "It represents an inadequate response to the greatest preventable cause of disease and death in the United States." He rattles off the names of some of the organizations that support his own legislation: the American Heart and Lung Associations, the American Cancer Society, and the Campaign for Tobacco-Free Kids, among others. Buyer's amendment is whisked off the House floor to make way for (oh, the indignities of life in the minority) a resolution from a Bronx Democrat "congratulating the on-premise sign industry for its contributions to the success of small business." When a roll call is finally taken the next morning, Congress votes for Waxman's bill, Tobacco Harm Reduction Center not included, by a margin of nearly three to one. The *Washington Post* runs the story on page A2. What would've been unbelievable fifteen years ago seems unremarkable now.

Waxman's major accomplishments are often like this. His legislative campaigns unfold over spans of time beyond the patience of most lawmakers, and sometimes defy political gravity—in the 1980s, when anything smacking of Great Society liberalism was on the chopping block, Waxman managed to expand the Medicaid program twenty-four times. It is not unusual for him to spend a decade or longer advancing a single policy goal in tiny pieces, forging unusual alliances as he needs them, or simply outlasting his opponents. "It's the Ho Chi Minh approach," a despairing Republican staffer on Waxman's committee once told *National Review*. "If [victory's] not in the first year, it's in the fifth."

This year, at age sixty-nine, Waxman has the wind fully at his back for the first time since his early days in Congress a third of a century ago. In November, he won a secret-ballot election for the chairmanship of the House Energy and Commerce Committee, narrowly unseating Michigan Representative John Dingell, the eighty-two-year-old lion of the House who had held the post in every Democratic Congress since 1981. It is traditionally the third most powerful position in the House—during Dingell's tenure, 40 percent of House bills crossed his desk—and, with Ways and Means Committee Chairman Charlie Rangel hamstrung by a real estate scandal, it is now arguably second only in policymaking influence to Speaker Nancy Pelosi.

Waxman is also exceptionally well wired to the executive branch. Philip Schiliro, who served as Waxman's chief of staff and virtual alter ego for more than twenty years, is now President Obama's congressional liaison, the aide most directly in charge of shepherding the president's agenda through Congress. Obama has also tapped former Waxman staffers for important deputy-level positions at the FDA and the Department of Health and Human Services, as well as lower-ranking jobs elsewhere. This is no small thing: lawmakers and presidents alike struggle to get actionable intelligence from inside federal agencies, which in turn zealously guard it to preserve a measure of autonomy. Vice President Dick Cheney made himself immensely powerful in part by placing loyalists in key positions throughout the bureaucracy. Waxman's ears are closer to the ground than those of just about anyone else in Congress.

For the rest of this year, Waxman's agenda includes launching most of the Democrats' biggest-ticket policy items. He is one of three chairmen crafting a health care reform bill this summer. If that effort is ambitious, the project consuming his time between now and then is even more so: along with his lieutenant, Heath and Environment Subcommittee Chairman Ed Markey of Massachusetts, Waxman is the principal architect of the American Clean Energy and Security Act, the first serious attempt by Congress to tackle climate change. Drafts of the bill include everything from money for electric cars to new requirements for lightbulb manufacturers, but the heart of the proposed law is a cap-and-trade program which, if properly executed, would cut greenhouse gas emissions 20 percent by 2020. Although the legislation's ultimate fate rests in the Senate—specifically, in the hands of skittish Democrats from the Rust Belt and Appalachia—Waxman's bill will set the terms of the debate and serve as the template for the Senate's legislation. If it passes, it will mark the beginning of the most dramatic transformation of the domestic policy landscape since the passage of Social Security.

Democrats are betting that climate change is a Henry Waxman Issue: a policy shift that seems immensely unlikely at first, but ultimately becomes almost inevitable. Those shifts do not always happen in a year. But they do happen.

Still, despite such ambitions, the White House faces numerous competing priorities, and climate change legislation is not first among them. (This year, the big push will be for

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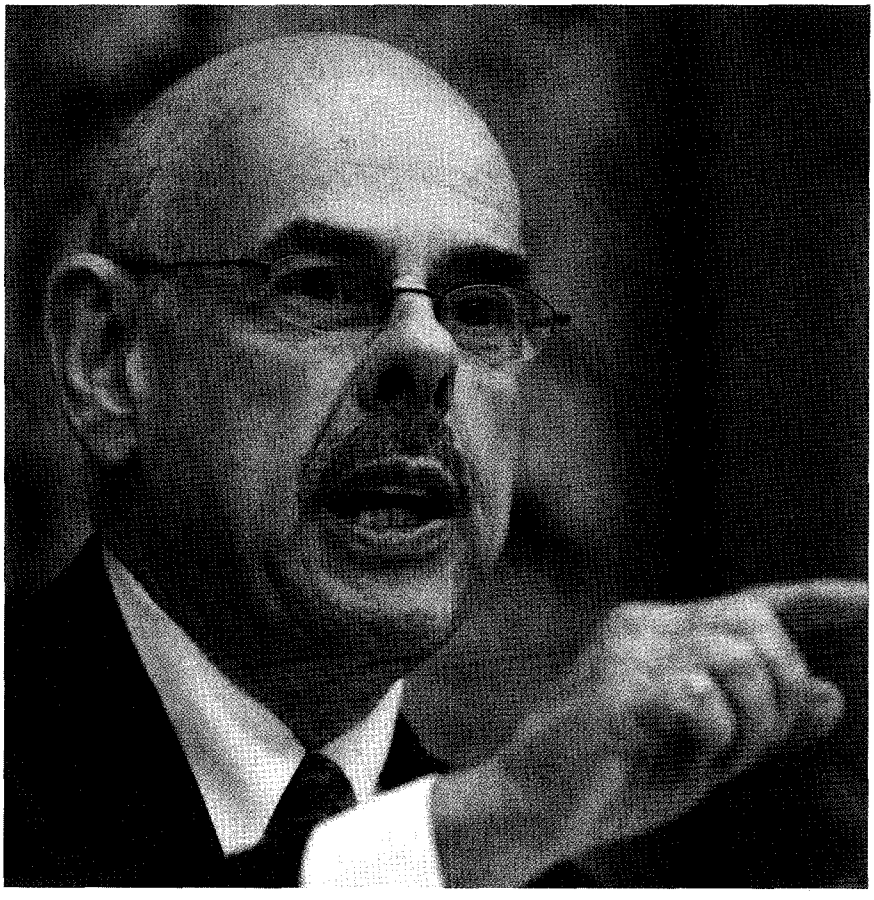
health care reform.) "I think Chairman Waxman is fighting an uphill battle," says Steven Biel, U.S. climate campaign director for Greenpeace. "He's in a position where he has to make up for a decade of not just lost policy opportunities, but of just not discussing in an informed, grown-up way the energy choices we face."

If that's the bad news, the good news is that this is the kind of uphill battle that Waxman has long specialized in fighting. What Waxman and the 136 other Democrats who voted for him in his chairman race were doing, in effect, was betting that climate change is a Henry Waxman Issue: a policy shift that seems immensely unlikely at first but, ultimately, becomes almost inevitable. Those shifts do not always happen in a year. But they do happen. And the arc of Waxman's career shows how.



The Arc of the Mustache Bends Toward Justice: Representative Henry Waxman spent the past two years as one of the Bush administration's most dogged investigators. Now he's one of the principal architects of Obama's legislative agenda.

Associated Press

The first thing you notice about Henry Waxman when he appears in the doorway of his Capitol Hill office is how little of it he occupies. At a height of five feet five inches, Waxman is one of Washington's better sight gags; his fearsome reputation on the Hill (in 2006, *Time* called Waxman "The Scariest Guy in Town") is sharply at odds with his stature and appearance. His close-trimmed mustache is bracketed by a pair of upturned nostrils and a mouth that oscillates between a rictus of concerned contemplation and a broad toothy grin, the whole package framed by his bald pate and generous ears. Hanging above the receptionist's desk in his office is a framed *Rolling Stone* illustration that depicts him as a snarling attack dog nipping at the heels of Bush, Cheney, and Condoleezza Rice. It looks like a breed of attack dog you could fit in a purse.

Most of the wall space around Waxman's own desk, which backs up against a tall window framing the dome of the Capitol, is filled with copies of bills he has passed over the course of three and a half decades in Washington, framed alongside the pens with which they were signed. Few are of recent vintage, however—Waxman has spent most of the past fifteen years in the minority party. He used those years to greater effect than many of his fellow Democrats, attaining some notoriety as an investigative bulldog on the House's Government Oversight and Reform Committee. In the 1990s, when the committee's Republican chairman, Dan Burton, was obsessively (and clumsily) investigating Bill Clinton's campaign financing, Waxman regularly found ways to thwart him. After ascending to the committee chair himself in 2007, Waxman became one of the Bush administration's most dogged inquisitors. It was Waxman who unearthed the fact that 363 tons of shrink-wrapped $100 bills had gone missing in Iraq, and revealed the extent of Halliburton's no-bid contracts in the country.

It was also Waxman who was stonewalled by Secretary of State Rice when he pressed her on pre-war intelligence on Iraq, in a hearing that still rankles him a year and a half later. "We never got Condoleezza Rice to finally talk about her statement on the uranium from Africa," Waxman says, sitting in his office on a morning in late March. "We got a complete runaround from her and her department. They said she already responded to it in her confirmation to be secretary of state—but she said nothing. The statement that she made was that if the CIA knew that it wasn't true, they never told her. She even said, 'They knew it in the bowels of the CIA that it wasn't true, but they never told us.' And then it turned out her chief deputy, Steve Hadley, was told by George Tenet himself that this wasn't true. And she never would acknowledge that." This is a man, you realize, who has learned to think in paper trails.

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When Waxman delivers floor speeches or television interviews there is a relentless righteousness to his oratory, but his fervor lacks the inspirational fire of the preacher or labor organizer. He sounds more like a high school principal who has caught a couple of sixteen-year-olds smoking in the bathroom—a few minutes of it is enough to make even the biggest-government liberal think once or twice about cutting a check to Ron Paul. He is often visibly awkward with the back-slapping rituals that go along with life in Congress, and looks like he has never swung a golf club in his life.

People who know Waxman well tend to note the difference between his discomfort with political bonhomie and his private demeanor; he is shy, many of them say, and unusually attentive to others. (When the mother-in-law of his friend Norman Ornstein, the American Enterprise Institute scholar, died earlier this year, Waxman broke away from round-the-clock stimulus package negotiations to pay his respects while Ornstein was sitting shiva.) Stories about him tend to focus less on things he does than on things he *doesn't* do. Although his district, California's 30th, includes Hollywood, and Waxman is a movie buff, he has never bothered to attend the Academy Awards. ("It's such a long night," he once told *Time*. "When I watch it on TV, I can get a snack.") Although he was one of the central figures in Congress's 2005 investigations into steroid use in Major League Baseball—and had his image splashed across two pages of *ESPN* magazine for his efforts—he doesn't follow sports.

"Henry's in the middle of this whole steroids stuff, right?" says Howard Berman, a fellow California representative and a friend of Waxman's since they were college classmates. "One day he had a hearing where the [baseball] commissioner and all these baseball guys testified. And afterwards Henry told me, 'We had this hearing, and nobody covered it.' And I said, 'No one covered it? It was in every paper's sports page.' But he hadn't seen it—it had never occurred to him to read the sports page." (Since then, Waxman says, "for the first time in my life I've been regularly reading the sports section. But I do it very quickly.")

Reporters sometimes describe Waxman as lacking a sense of humor, which isn't quite right—what he lacks is the variety of wit that Washington understands, the ability of a Barney Frank or an Alan Simpson (who once declared Waxman to be "tougher than a boiled owl") to dispense quotable one-liners on demand. Waxman instead tends toward dryness. When I press him for details of the reconciliatory dinner that he and Dingell had after his November coup, he thinks for a second, as if he's contemplating giving me some heretofore-unreported juicy detail, then replies, "Let's see ... we had fish. I think there was a white wine. There was cheese beforehand. Thinly sliced. It was really an interesting hors d'oeuvre."

Waxman seems to have come into politics more or less fully formed. Transcripts of hearings he conducted as a state assemblyman in early-'70s Sacramento on issues such as medical malpractice oversight read like they were recorded last week on Capitol Hill. He was born in East Los Angeles in 1939, and raised in Watts and West Los Angeles. His parents were both children of Jewish immigrants who had fled the 1903 pogrom in what is now Moldova. (Waxman is deeply religious and does not work on Saturdays except in emergencies.) His father was a grocer who worshipped FDR and imbued his family with a New Deal ethic of civic responsibility, one that Waxman carried with him to college at UCLA, where he was a member of the Young Democrats. He graduated in 1961 and went on to UCLA's law school, all the while staying plugged in to state Democratic politics.

In 1968, Waxman ran successfully for a Beverly Hills seat in California's state assembly. (Waxman's aunt, who ran a small liberal Westside newspaper, the *LA Reporter*, was so cantankerously principled in her politics that the paper endorsed Waxman's opponent.) An observant student of policymaking, Waxman figured out early in his career that the best way to have clout as a legislator was to pick an issue, master it, and stick with it. He chose health care and made a name for himself in the assembly fighting then Governor Ronald Reagan's attempts to shrink California's Medicaid programs. As a native of smoggy L.A., he was also an early convert to environmental awareness.

The first thing you notice about Henry Waxman when he appears in the doorway of his office is how little of it he occupies. He is one of Washington's better sight gags, his fearsome reputation on the Hill at odds with his stature and appearance.

In 1974, a House seat opened up in Los Angeles, and Waxman was swept into the U.S. Congress as one of a crop of reform-minded Watergate Babies. Congress was undergoing a generational transformation at the time, and the older chairmen who ran their committees and subcommittees like personal fiefdoms were becoming anachronisms within the party. Waxman's immediate predecessors had begun dismantling the existing system of committee assignments, instituting secret-ballot elections that allowed the reformers to begin ousting their elders. Waxman enjoyed the fruits of this in 1979, when he beat a North Carolina congressman of considerably longer standing for the chairmanship of the Energy and Commerce Committee's Health and Environment

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Subcommittee, the first time in the history of Congress that such a position had fallen to someone out of the line of seniority. His success was due in large part to a practice—controversial then, but standard now—that he had brought from California to Capitol Hill: that of doling out money from his own campaign coffers to the campaigns of needy and potentially useful Democratic colleagues. Then as now, Waxman was an ambitious and effective reformer of policy but, crucially, not of politics. While other congressmen railed against the failings of the system, decrying the influence of campaign money and the abuse of procedural loopholes, Waxman simply tried to master them.

The Smoking Gun: Tobacco-company CEOs are sworn in at a 1994 hearing of Waxman's subcommittee, in which the executives famously testified that nicotine wasn't addictive.

Waxman's first major battle came in 1981, when President Reagan attempted to roll back the Clean Air Act, a piece of legislation enacted under Nixon in 1970. Reagan had an ally in John Dingell, the new chairman of the House Energy and Commerce Committee, who, as a defender of recession-battered Detroit, had become the House's staunchest opponent of stricter emissions controls. From his subcommittee perch, Waxman played a skillful inside-outside game, using public hearings and obscure parliamentary tactics to gum up Dingell's efforts and divide his supporters, until Reagan decided the fight wasn't worth the trouble. Emboldened, Waxman embarked on a campaign to extend the Clean Air Act to encompass toxic air pollutants, urban smog, and acid rain–producing emissions from coal-fired power plants. He would spend the rest of the decade trying to pull it off.

It was a quixotic effort. Waxman was trying to force major operating changes on America's car manufacturers, the industry most cherished by Dingell, Waxman's own committee chair. He was antagonizing the utility and coal-mining industries, and with them Senate Majority Leader Robert Byrd. And while the Reagan administration had bowed out of legislative battles, it was busy weakening the federal government's regulatory apparatus wherever it could.

What Waxman had, however, was a keen grasp of the levers that were at his disposal even as a junior legislator. Because the House, unlike the Senate, tends to impose a demoralizing anonymity on its members, Waxman offered his allies a place in the spotlight: he farmed out large portions of the complex Clean Air Act legislation to like-minded congressmen on his subcommittee, tasking Minnesota's Gerry Sikorski with developing acid rain legislation and Colorado's Tim Wirth with the air toxics provisions.

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Waxman also learned how to look for alliances across party lines. On matters of air pollution, politicians were divided more frequently by region and industry than by party, and Waxman often made common cause against Dingell with moderate northeastern Republicans. (Waxman applied this approach even more creatively to public health issues, attracting Republican supporters for a bill funding AIDS treatment at a time when it was still considered a "gay disease," by focusing attention on the issue of pediatric AIDS rather than the epidemic's adult victims.) And, while a lackluster stage player, Waxman was a masterful director. In December 1984, when an explosion at a Union Carbide chemical plant in Bhopal, India, killed 2,000 people, he held a field hearing near a similar facility in West Virginia to highlight the risks of the chemicals he was seeking to regulate in his clean air legislation.

Eventually, Waxman fashioned a congressional power center to rival Dingell's, with an intensely loyal and knowledgeable staff that understood tiny technical details and how they mattered. A decisive win came in 1987, when the House considered a bill that would relax standards for urban smog. Industry-friendly members like Dingell and Pennsylvania's John Murtha confidently predicted that they'd win. Instead they lost by nearly a hundred votes. A year later, the election of the more environmentally minded George H. W. Bush gave sympathetic Republicans the cover they needed to vote with Waxman. Dingell realized it was time to make a deal. In 1990, Waxman's Clean Air Act reauthorization passed the House and Senate.

The most novel facet of the legislation was its answer to the question of what to do about acid rain, one of the most high-profile environmental concerns of the era. Fixing the problem required major reductions in the pollutants released by coal-fired power plants. In 1988, Daniel J. Dudek, an economist working for the Environmental Defense Fund, had hit upon an elegant free-market solution: utilities would be granted a certain number of emissions allowances, allowances that could then be traded if they didn't need to use them. It was called "cap and trade." Bush loved the idea, and Waxman borrowed it.

The utilities protested. A study by the Edison Electric Institute claimed that the acid rain provisions would add $5.5 billion annually to consumers' electrical bills. The result turned out to be something quite different: as of 2006, nationwide electricity rates had actually dropped below their 1990 levels, while the costs to utilities, according to the EPA, were a quarter of what industry had predicted. Sulfur dioxide emissions, meanwhile, have dropped by 46 percent since 1990. The legislation's success is one of the principal reasons that a similar system has become the preferred paradigm for drafting climate change legislation.

On April 22, Waxman's committee began its public rollout of the climate change bill, calling three cabinet officials—EPA Administrator Lisa Jackson, Energy Secretary Steven Chu, and Transportation Secretary Ray LaHood—to the Hill for a hearing. An hour before the doors to the committee room in the Rayburn House Office Building opened, the line to get in was nearly a hundred people long, snaking the full length of the corridor. "They should've held this at RFK," an energy trade publication reporter said as he squeezed in next to me in the press section inside.

From the chairman's seat, Waxman welcomed his colleagues. "Nearly forty years ago," he said, "this committee passed the original Clean Air Act." Twenty years later, in 1990, it had passed Waxman's reauthorization. "We have a similar opportunity and responsibility this year."

But as the assembled congressmen took turns questioning the administration officials, it was clear how much things had changed. The moderate Republicans of 1990 were gone, their seats filled by energy hard-liners hand-picked by Newt Gingrich and Tom DeLay. Texas Representative Joe Barton, the committee's ranking Republican, zeroed in on Chu, trying to stump the Nobel laureate by demanding an explanation of how oil ended up under the Arctic Circle. (The answer Barton was looking for apparently had something to do with it once being warm up there.) The other Republicans followed suit. "I think this is the largest assault on democracy and freedom in this country that I've ever experienced," fumed Illinois Representative John Shimkus.

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Because support from Republicans will be almost nonexistent, Waxman's success will hinge even more than it did in 1990 on his ability to win over reluctant Democrats: House colleagues and senators from places like West Virginia and Michigan with regional concerns about things like utility bills and auto manufacturers—and, in many cases, a nervous eye on the 2010 elections. The fine print of Waxman's legislation is intended to placate such worries. It is heavily influenced by the U.S. Climate Action Partnership, a coalition of environmental groups and corporations that in January put out a blueprint for climate change legislation, including a cap-and-trade framework. The plan's sig-

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natories—who include not just the Natural Resources Defense Council but also Ford, Duke Energy, and the mining conglomerate Rio Tinto—are calculating that those who are on board early have the best chance of influencing the shape of laws to come.

The industrial players in USCAP wanted "some certainty as they start to make investments," Waxman says. "And I think that is going to be very, very helpful, when you look at what USCAP has done in preparing the way for a lot of industries who in the 1980s would've joined together to fight *anything*." Waxman has borrowed his negotiating tools from USCAP, leaving open the question of how exactly the emissions allowances will be allocated—how many will be auctioned off, and how many will be given away. The proposal would also include a system of emissions offsets, which would allow federal regulators to count carbon-absorbing resources like forests against the pollution limits.

If we are lucky, Waxman's fight on climate change is nearing its endgame, requiring not a decade of low-boil persistence but, rather, a couple years of tenacious negotiating: where the key is knowing not only how to make a deal, but how to make the right one.

While such flexibility is the greatest strength of Waxman's plan, however, it's also its greatest weakness. The bill's wiggle room improves its chances of passing Waxman's committee and later the Senate—but, if abused, could also gut the bill of its effectiveness. "The [draft] bill includes two billion tons of offsets, which is far too many," Greenpeace's Steven Biel says. "You could meet the requirements under this cap with no emissions reductions at all for twenty years or more." There is also the cautionary tale of Europe, where a poorly conceived emissions-trading system did little to reduce actual emissions in its first several years while saddling industries with copious red tape.

Ultimately, the biggest obstacle to Waxman's goals is the fact that climate change is exactly the kind of problem that Congress is least well calibrated to confront: a threat of existential scale but unclear contours, where all short-term incentives point in the wrong direction. Gallup's most recent poll found that while a majority of Americans believe that media's portrayal of climate change is accurate or understated, 41 percent believe it is exaggerated, the highest percentage in more than a decade of polling. Among the eight environmental concerns the pollsters asked about, global warming ranks dead last, and only 38 percent of Americans believe it is a serious threat.

In many respects, where climate change is now looks a lot like where tobacco was in the early '90s. Public opinion was cautiously on Waxman's side then, narrowly favoring limits on smoking and regulation of the industry. Waxman spent the next fifteen years patiently battling to shift the political consensus, leveraging broad but shallow popular support against a small but determined opposition. But if the fight over climate change looks too much like the fight over tobacco, we're in trouble, because here are the brutal facts: The 2007 report of the Intergovernmental Panel on Climate Change—the gold standard of conservative risk assessment—advises that governments start curbing emissions no later than three years from now. Delaying any further will undermine what may be the final chance to stabilize temperatures below a level that will otherwise become catastrophic within the next century. Most climatologists believe that if moderately ambitious targets on the order of Waxman's bill are not met by 2020, we will be helpless to stop warming trends before they hit a tipping point, beyond which there is nothing we can do. Officials and staffers close to the negotiating process admit that digging in and fighting for fifteen years is not an option this time around.

If we are lucky—and it's a frighteningly large "if"—Waxman's fight on climate change is nearing its endgame, requiring not a decade of low-boil persistence but, rather, a couple of years of tenacious negotiating. Passing his energy bill into law will be harder than getting pollution legislation on the books twenty years ago, but it will also be similar—and a chance for Waxman to prove that, even after fifteen years in the wilderness, he still knows not only how to make a deal, but how to make the right one. "Waxman is a very skilled legislator," a former Dingell committee staffer says. "Ultimately, I don't think he would sacrifice his fundamental principles just for the sake of getting a bill. I think he would prefer no bill to a bad bill."

"Most members are more interested in getting to 'yes' than in what that 'yes' is actually about," says Daniel Weiss, the director of climate strategy for the Center for American Progress, who worked closely with Waxman's staff as a lobbyist for the Sierra Club in the '80s. "Henry, to paraphrase Kenny Rogers, knows when to hold them and when to fold them. He knows when to retreat and fight another day." And as Steve Buyer could tell you, Henry Waxman's defeats are rarely actually defeats—they're just battles he hasn't finished fighting yet. WM

Charles Homans is an editor of the *Washington Monthly*.

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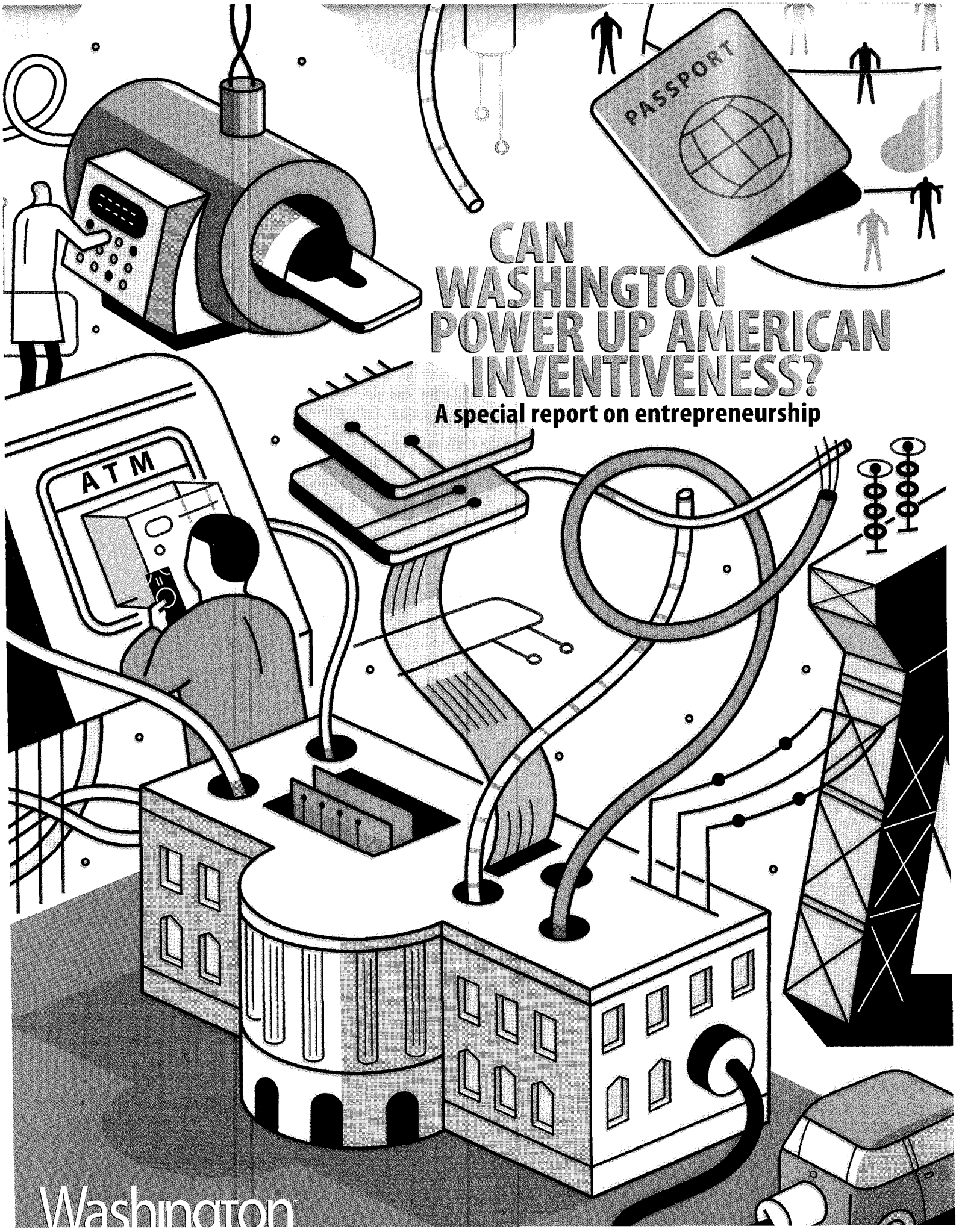

CAN WASHINGTON POWER UP AMERICAN INVENTIVENESS?

A special report on entrepreneurship

Washington

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INTRODUCTION: THE NEXT FRONTIER

The future of America's economy is riding on its entrepreneurs. The future of its entrepreneurs is riding on government.

By Paul Kedrosky

This spring, during the battle over the stimulus package, I stumbled upon a television news program where analysts were debating whether government or entrepreneurs would get us out of the economic crisis. As someone who both invests in and studies the history of business start-ups, I was glad to see the subject of entrepreneurship being discussed. But the way the question was posed was hopelessly wrong: the notion that our economic salvation lies in either government *or* entrepreneurs is a classic false choice. And yet it corresponds to certain battle lines that many have drawn over economic policy.

On one side is the belief that government stimulus spending will be the primary force in our eventual recovery. This view holds that the key to exiting economic downturns is countercyclical public spending to keep the U.S. economy closer to its optimal level of activity. You should deficit-spend when the economy is operating at less than its full capacity; you should shrink spending and manage debts when the economy is back to normal. It is, in short, the Keynesian view, named for economist John Maynard Keynes and widely held by congressional Democrats. And there's some truth to it. Massive government spending can cushion the blow when an economy shrinks as severely and as quickly as this one has. But imagining that a fiscal stimulus, however outsized, can compensate for indebted consumers hell-bent on saving their way back to (relative) solvency is high-definition dreaming.

The other policy perspective is that greater government spending only leads to higher tax rates, hence to declining incentives for investors to take risks. Better, in this view, to allow the economic crisis run its course, permit large firms to collapse, and let entrepreneurs pick up the pieces and create new companies, jobs, and wealth. This is the "Hayekian" view (à la Austrian economist Friedrich von Hayek), widely held by congressional Republicans, and there's some truth in it, too. Higher tax rates will, at some point, undermine investment incentives (though the evidence suggests that we're not very close to that point yet). Downturns—especially severe ones—do disrupt markets and provide opportunities for innovators. Microsoft, Allstate, Morgan Stanley, and many other companies rose from the wreckage of economic downturns. Small companies have been the primary source of job creation in the United States over the last few decades. Unless you expect that trend to change, start-ups and small companies must, by definition, play a major role in any meaningful recovery.

But the purist Hayekian view is as misguided as the purist Keynesian one. For one thing, downturns are just as hard on entrepreneurs as they are on the rest of us. There is less investment capital available for start-ups, prospective customers are less willing to spend money, and fewer people and companies want to take chances buying from "risky" start-ups and small companies. All of these issues cannot be simply brushed aside with a wave of a laissez-faire wand. More broadly, the followers of Hayek tend to ignore the vital role government has played in opening up new entrepreneurial

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opportunities, from Thomas Jefferson's Louisiana Purchase, which made land available to generations of frontiersmen, to the Defense Department's creation of the Internet. Indeed, it's often at times of major economic distress that government has the most political latitude to make such bold moves. So while it's true that our best hope for future growth is riding on America's entrepreneurs, the best hope for our entrepreneurs may be riding on government.

This isn't the first time an economic crisis has provided the potential for gutsy public policies that benefit entrepreneurs. The Panic of 1857 was sparked by a U.S. banking crisis that in turn caused a sharp recession. (Sound familiar?) While the banking crisis itself passed relatively speedily, new fears about the banking system and the economy had political consequences that helped to bring to power the newly formed Republican Party. Comprised in large part of entrepreneurs and Northern industrialists, they had a more Hamiltonian view of the role of government and its capacity to spur economic development; the Democrats were still dominated by Jacksonian agrarians—suspicious, to a fault, of government power.

Momentum grew among Republicans to aid commerce and settlement by building a transcontinental railroad, but that would be costly. A westward-bound U.S. railroad line would require, as economist Joseph A. Schumpeter has said, "building ahead of demand in the boldest acceptance of the phrase," something that only government could help do. In 1862 President Lincoln signed into law the Pacific Railway Act—which gave land grants to railroads and helped finance line construction with thirty-year Treasury bonds—and by decade's end the first rail line reached San Francisco. This extraordinary feat made possible the rise of whole new industries, such as the retail catalog business (think Sears, Roebuck and Co.), and would account for half of the increase in urbanization in the Midwest, according to a paper by Jeremy Atack of Vanderbilt University.

Lincoln's Republicans used their power to make other audacious moves to further economic growth, including passage of the National Banking Act, which established a national currency and national bank charters, and the Morrill Act of 1862, which created the land grant college system. The latter spread knowledge of the applied sciences, especially in agriculture and mechanics, throughout the country, which economist Robert Gordon argues contributed directly to the rapid pace of productivity improvement seen in the U.S. through the Second Industrial Revolution and into the 1920s. This deepening of human capital through education leading to entrepreneurship is now central to most modern theories of economic growth.

No economic crisis gave Washington more political leverage than did the Great Depression. While FDR and his New Dealers were not specifically focused on reviving entrepreneurship, as opposed to just getting the economy off its knees, some of their signature policy efforts had precisely that long-term effect. For example, new banking regulations—like the Glass-Steagall act, which established the Federal Deposit Insurance Corporation—combined with massive numbers of Depression-era bank failures to transform the banking landscape. The U.S. was almost certainly overbanked in the pre-Depression period: in 1920, more than 29,000 banks competed for a population of 106 million. Banking laws had created an absurdly fragile system, with banks too limited in their geographic scope and (with rare money center exceptions) too small to lend at the scale increasingly required by entrepreneurs who were creating new manufacturers and farms. The combination of bank failures and deposit insurance stabilized the system, eliminating bank runs and increasing bank balance sheets—average assets per bank doubled by 1942—thus making it possible for banks to finance the capital-intensive manufacturing entrepreneurs of the era.

Lincoln and FDR both took advantage of crises to create new platforms on top of which entrepreneurs could generate economic growth.

Another opportunity came in the Depression-era electric grid. In the 1920s, electrification outside of cities was largely nonexistent, and those rural customers paid twice as much per month as did urban customers. In the absence of electricity productivity, economic growth stagnated outside of cities, especially on farms. As a result, in 1935 President Roosevelt created the Rural Electrification Administration, which provided federal loans to local governments, farmer cooperatives, and the like to extend electrical service outside cities.

It succeeded. In a little less than two years the REA helped bring electricity to more than a million farms in forty-five states while the cost of a mile of rural electrical line had fallen by more than two-thirds, to less than $800. Newly grid-connected rural and suburban families purchased appliances in droves, thus creating a new cadre of entrepreneurs in the electrical and plumbing trades. Agricultural productivity soared on the back of rural electrification (and mechanization), making it possible for U.S. farmers to serve a fast-growing nation's needs. The REA helped create a new national electrical grid, a forerunner to the Internet and the Interstate highway system; this is now widely thought to have been among the most successful examples of crisis economic policymaking.

What do all of these initiatives have in common? They took advantage of the economic crisis to rise above it and create—on purpose or through happy accidents—new platforms on top of which entrepre-

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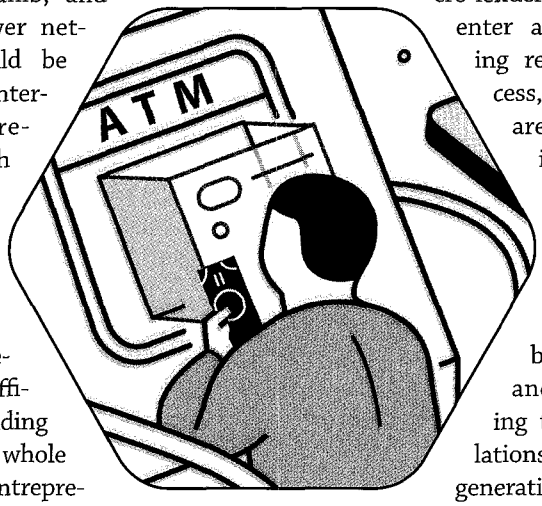
neurs could generate economic growth. Can we do the same thing now? Yes, and more, because we have a much better understanding than we did half a century ago of how government policy affects entrepreneurship, human capital, and economic growth, and a better sense of what government should and shouldn't try to do.

One example where policy could help with entrepreneur-friendly change is energy. America's electrical grid has changed surprisingly little since its Depression-era build-out. Consequently, it's an industrial anachronism, a failure-prone, dumb, and output-only power network that should be more like the Internet: two-way, resilient, and with more of the intelligence at the edges. A smarter grid would make possible vast improvements in energy efficiency while providing a platform for a whole new wave of entrepreneurial innovation—for instance, the creation of electrical appliances that can sense when to increase or dial back their energy usage based on second-by-second changes in electricity-price signals from utilities. The Obama administration has included $4.5 billion in the stimulus package to encourage the creation of a smart grid. But to truly transform the grid will take major—and controversial—changes in regulations that Washington has only begun to think about. (See Mariah Blake, "Grid Unlocked," page A9.)



The Depression transformed the U.S. banking system. Something similar can happen now. A postcrisis banking system should be flatter and more distributed, and contain fewer banks that are too big to fail. Some entrepreneur-driven changes in that direction have been under way in recent years, but they were thrown into disarray late in the Bush administration. Fast-growing so-called micro-lending sites like Prosper were allowing people to bypass the banking system and make loans mediated through Web sites, sort of like an eBay of loans. Despite that being valuable and important, especially in the credit crisis, the micro-lending industry was severely hobbled by the Securities and Exchange Commission. In a little-noticed November 2008 decision, the SEC ruled that these loans were actually securities, and therefore required registration on a loan-by-loan basis, whether the amount was $100 or $25,000. This heavy-handed and expensive approach has forced micro-lenders to go dark and enter a time-consuming registration process, just when they are most needed in the economy. While there is nothing wrong with forcing micro-lenders to be transparent and open, applying the same regulations to these next-generation services is inappropriate. All of these services were already publishing more detailed information on their loan markets than you could ever get from a "safe" regulated bank. Banking need not look the same as it did in the recent past for it to successfully finance economic growth in the economy. The Obama administration should revisit this SEC decision, perhaps developing new rules scaled for micro-lending operations.

Another way government could boost entrepreneurship is by making sure affordable health insurance is available to all Americans. (See Jonathan Gruber, "A Shot in the Arm," page A14.) While younger entrepreneurs, still in the flush of invulnerability and without families, will often start companies without worrying overly about health care, middle-aged would-be entrepreneurs do not have the same luxury. And if you think that innovative entrepreneurship is entirely the province of twentysomethings in a garage near Palo Alto, California, think again. James Clark cofounded Silicon Graphics at the age of thirty-eight and Netscape at fifty. Ray Kroc started McDonald's at the age of fifty-two. The great P. T. Barnum only created his namesake circus at the age of sixty-one. According to a Ewing Marion Kauffman Foundation study, the U.S.-born founders of high-tech companies are twice as likely to be over the age of fifty as they are to be under the age of twenty-five. But to the extent that the level of entrepreneurship among older Americans is less than it would otherwise be because of health care worries, a strong case can be made for a simplified base level of national health care that is portable across states.

Perhaps the most straightforward action government could take to boost innovation and entrepreneurship is to reform its immigration laws. Foreign-born entrepreneurs are responsible for many of the fastest-growing companies in America, from Google on outward. Studies have shown that skilled immigrants, in particular, account for a high percentage of the founders of Silicon Valley start-ups. Of the technology companies founded in major tech hubs between 1995 and 2005, 31 percent had an immigrant as a key founder, according to research by Vivek Wadhwa. The U.S. should be doing everything it can to facilitate their arrival and permanent addition to the U.S. workforce, whether through expanded visa programs, the attachment of green cards to U.S. graduate degrees, or the outright purchase of skilled immigrant status as is the case in Canada and elsewhere. (See T. A. Frank, "Green Cards for Grads," page A7.) It is crucial in this downturn to fight back anti-immigration sentiment, as well as the predictable xenophobia.

The current economic crisis has many proximate causes: lax federal regulations, opaque debt instruments, market groupthink, and so on. But it is also the result of economic exhaustion. In a healthy economy, growth comes from companies exploiting new technologies and from

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innovations that solve real-world problems. But when fresh opportunities for growth begin to disappear, economic actors often turn to the performance-enhancing drug called "financial leverage" (i.e., excessive debt) to stay in the game. Such periods of boosted performance inevitably end badly. But they can also mark transitional periods from one economic state to another. The Great Depression initiated a transition from the Second Industrial Revolution to a more modern industrial capitalism. We are going through a similar change now, one that policymakers can facilitate, with financial services set to shrink in importance, while peak oil and environmental worries create new opportunities for clever entrepreneurs to build on a new and more sustainable socioeconomic platform.

We are headed to a "new normal" in U.S. economic life. While that will be painful and disruptive, it can lead to a wave of entrepreneurial capitalism, with sustainable and necessary change in how we work, travel, communicate, and power our lives. Prior crisis-driven interventions produced some of the longest periods of peacetime economic expansions in U.S. history, driving job growth, wealth creation, and productivity. The same can happen today if Washington acts wisely and intrepidly. Immense opportunities remain ahead, from energy to disease to resources to telecommunications. Yes, new economic powerhouses are emerging in Brazil, India, China, and elsewhere, but the United States has something the rest of the world doesn't: the foremost entrepreneurial economic culture on the planet. With appropriate assistance, entrepreneurs can drive the next stage of U.S. economic growth, taking us past this current downturn. The resulting opportunities will be legion for these innovators, and therefore for all of us. WM

Paul Kedrosky is a senior fellow at the Ewing Marion Kauffman Foundation and editor of Infectious Greed, a popular finance and economics blog.

THE NEED FOR SPEED

Why is the United States still waiting for the future to download?

By Nicholas Thompson

Broadband Internet in the United States is a disaster. It's appalling. It's embarrassing. It's preposterous. Compared to the rest of the world, our connections are slow, balky, and expensive. If you divide speed by cost, Australia's Internet access is three times better than ours; France's is nine times better; and Japan's thumps us twenty-one times over. We're catching fish with our hands, while they are out in trawlers. And the reason doesn't have to do with anything intrinsically American. It's not, for example, that the country is too rural. Broadband stinks even in Chicago. The problem is almost entirely a failure of policy and of imagination.

Our tortoise-like downloading isn't just a problem because it means YouTube videos buffer and stall: it means we're missing out on a whole generation of useful technology. Doctors in a Tokyo hospital routinely examine tissue samples from patients in rural areas, using high-definition video and remote-controlled microscopes. In South Korea, it is so easy to share files and upload video that a whole mini industry of video tutors has flourished. According to a report published recently by the Information Technology and Innovation Foundation, the teachers who provide the best test-prep lectures have become national celebrities.

Americans should be envious, but also worried. The countries that deploy ubiquitous high-speed broadband first are the countries that will develop the tools to use it. America built the world's first computers, and then along came Microsoft. America pioneered the Internet, and along came Google. It's hard, however, to imagine that the technologies of the future will be hatched here. In 2001, the first year that the OECD recorded data, the United States ranked fourth in the world in a metric measuring broadband cost, speed, and penetration. Now we rank fifteenth, and are dropping steadily.

America's problem starts with one fact: we have a total lack of competition. In most places, you can only get broadband through your cable company or through the DSL your phone company sells. Both industries have recently gone through merger madness, meaning that there is not only minimal competition *between* industries, there's minimal competition *within* industries. You're basically locked into one of two bad options. The government tried to solve this problem in the 1996 Telecom Act, which required the incumbent monopolists to lease their infrastructure to competitors. But the law wasn't enforced, and, eventually, the incumbents succeeded in neutering it.

That lack of competition is partly caused by a structural problem. It's easy to lay fiber-optic lines across the country. These wires are the Internet's backbone, and we've got plenty of them. But the fiber stops at nodes in cities or towns and doesn't actually go into people's homes. To make that journey, it's got to slog across slow copper wires. The path taken by an e-mail sent from Washington, D.C., to San Francisco isn't that different from the path taken by a traveler. The beginning

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and the end are really slow: you stuff bags into taxis, get stuck at stoplights, and have to wait for the shuttle at the parking lot. Then you zip over the middle three thousand miles in a jet airplane. The e-mail does the same kind of thing. It crawls out from your home, speeds across the nation at about the speed of light, and then trudges across the so-called "last mile."

How do you make that last mile faster? The easiest way would be for the companies that have the rights and access to your home to run the same fiber networks into the house that they use to send the information across the country. To stretch the metaphor, this would be the equivalent of sending a Harrier jet to pick you up at your house and drop you off on the steps of your final destination. But the cable and phone companies don't have much incentive to do this. If you're making good money off Slim Jims, why bother trying to sell sirloin?

Optimists believe that the Obama administration can reverse the problem with the 2009 stimulus package, using the rules and regulation it attaches to the $7.2 billion targeted for providing broadband in rural areas. But while this money will create great public benefit, it won't help the United States catch South Korea. Right now, only about half of American households have broadband—mostly of the really slow variety. If 70 percent of households had broadband, that would certainly be a useful improvement. Still, connecting a slightly less embarrassing percentage of the population to the Internet at embarrassingly slow speeds isn't exactly solving the problem.

What the country really needs is a massive investment to build out the fiber lines that go to people's homes. There are at least four ways to do this: subsidize the current providers; try again to inject competition; let users buy the fiber directly; or start a completely new company. People close to the Obama administration are thinking about all of these, and we can hope that one strategy, or a combination of strategies, will appear in February 2010 in the Federal Communication Commission's critical paper on national broadband strategy.

Massively subsidizing the existing providers is the Asian model. Japan, for example, allowed its national provider, NTT, to completely write off the expenses incurred by building its network. South Korea did something similar. It's not clear, though, that this solution is transferable to the United States. Do you really want to try to solve a problem by giving billions of dollars to the companies that created it—and which have records of squandering past subsidies, and powerful incentives to squash innovative solutions? Even today, incumbent telecom lobbyists are busy trying to crush plans for municipal WiFi and city-run fiber-to-the-home experiments.

In 2001, the United States ranked fourth in the world in a metric measuring broadband cost, speed, and penetration. Now we rank fifteenth, and are dropping steadily.

Creating competition is, in general, the way the Europeans have built their networks. And while the time for mandating line sharing (as the 1996 Telecom Act did) has passed, there are some great ideas that can be taken from the other side of the Atlantic. For example, the nonprofit group Free Press has recommended that the Obama administration adopt an idea from Switzerland and offer tax credits to companies that build multiple lines of fiber into homes. If you lay in one strand of fiber, on which you'll sell your service, you don't get a credit. But if you lay in two or three, which competitors can rent, you get a huge deduction.

The third idea, floated by Columbia professor Tim Wu (who also is the chairman of Free Press), is to let customers own their own fiber connections instead of leasing them from the telecom companies. Cities or communities would decide to invest in a fiber network, which some central group would manage and maintain. Individuals, subsidized by the government, would then buy their own lines and decide what services they'd want sent over them.

The last, and probably the most likely to succeed, option is for the government to just jump into the market itself, creating a model something like the postal service. This is like what Australia has recently announced. There, a new government-controlled company is going to spend $31 billion connecting homes with fiber. It could start with fiber strung into schools and community centers, then government buildings, then public housing projects, and, eventually, every home in the country. Private companies would compete, just as UPS and FedEx compete with the postal service.

All these solutions would require massive government investment, and while the benefits would be equally exorbitant, there would also be downsides. High-speed broadband, for example, could make it easier for companies to outsource. But it's time for the country to stop thinking of high-speed Internet access as a useful luxury. Instead, we should consider it a crucial part of the infrastructure of the twenty-first century. In the race to reap the benefits from this infrastructure, the United States has fallen abysmally behind, and only truly big and creative thinking will help the nation catch up. WM

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GREEN CARDS FOR GRADS

The U.S. educates brilliant students from around the world, then sends them home to work for our competitors.

By T. A. Frank

I recently spent several days in Northern California and came down with a mild case of wealth poisoning. This often happens when I travel to places like San Francisco and Palo Alto. The greenness, tidiness, and modernity of the Bay Area start to chafe, like a Barbra Streisand interview, and I become homesick for the soothing grime of Los Angeles. The feeling is especially strong in Silicon Valley, which seems determined to show the world how rich you can get without having any fun.

But I'm not actually complaining. Thanks to innovation in places like Silicon Valley, the United States remains economically competitive in the world. It's the Bay Area that allows California to lead the nation in high-tech exports, pulling in nearly $50 billion annually. Last year, 39 percent of all venture capital in the United States found its way to Silicon Valley, an indication that the companies there are doing something right.

This would all be very comforting, were the prosperity of America's technology hubs not so fragile. Unlike heavy industry, which relies on factories that are expensive to launch and hard to move, the knowledge industry is mobile. It's also relatively simple to capitalize, because, fundamentally, information technology is all about the brains. Whoever gets the best ones wins.

For years, the United States effortlessly excelled at this game. The governments of China and India made conditions too disagreeable for innovators, while Europe and Australia effectively coasted. But our run of lazy luck is long gone. Today, China, India, the European Union, Australia, and other competitors are all vying to attract the most promising talents to their shores. China and India have greatly improved conditions for would-be entrepreneurs, and the EU is considering a skills-based "blue card" to compete with the green card offered here.

Now, we are starting to see our rivals pull ahead of us. In 2007, high-tech exports from the United States to other countries totaled $214 billion, but imports amounted to $333 billion. If we must do the math (and in this case we must, even if India offers to help), then we arrive at an ugly result: a high-tech trade deficit of nearly $119 billion. When the world's leader in innovation can't break even, it's a dubious leader.

One way to regain our dominance in the tech sector would be to get more of the brightest people in the world to move here. According to a recent report issued by Duke University and the University of California at Berkeley, roughly a quarter of technology and engineering start-ups in the United States have founders who were born abroad. Over half of Silicon Valley start-ups have at least one immigrant founder. And, according to Microsoft, 35 percent of its patents filed last year came from visa and green card holders. Skilled immigration has become central to innovation and entrepreneurship in the United States.

As things stand, however, we're not exactly making new talent feel welcome. The United States provides advanced degrees to thousands of the world's most gifted students and then sends them home, where they can work for our competitors. That we pursue such a policy only increases my concern that all the smart people in the United States have already left.

Students who wish to stay here after graduating must undergo arduous procedures that encourage people to exit rather than stay. Some are lucky enough to obtain O-1 visas or green cards purely on the basis of "extraordinary ability," but requirements are so stringent that few students can meet them early in their careers. Most face years of working on H-1B visas, for which demand dwarfs supply. Because the H-1B relies on employer sponsorship, which can easily be revoked, foreign workers are vulnerable to exploitation, which makes the prospect of working here less attractive and drives down wages for everyone. And once the clock runs out on an H-1B visa, the line for an employment-based green card is daunting, with more than a million applicants waiting for just over 100,000 spots each year. What's more, a maximum of 7 percent of employment-based green cards may go to citizens of any one country, meaning that Chinese and Indians are at an immense disadvantage to, say, Tuvaluans.

For many applicants, no option remains but to leave the country. Although precise numbers aren't available, newspaper reports and statements by college professors and students suggest that today, in contrast to only five or ten years ago, students from China and India are more likely to return home after completing their education in the United States.

Capitol Hill isn't entirely oblivious to such problems. While there is immense disagreement over how to resolve the status of those who are in the country illegally, most members of Congress recognize that legally employed, accomplished immigrants are valuable to the economy. Even a hard-liner like Republican Tom Tancredo has conceded that "the kind of immigration that would have a positive impact would most like-

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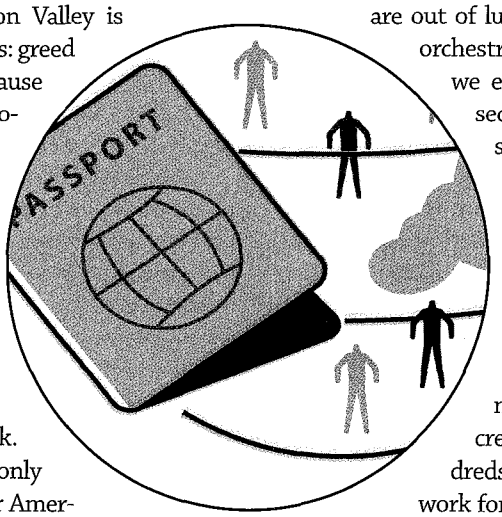
ly be the kind that is made up of high-income, high-skilled people." Nevertheless, because the entire topic of immigration has become so poisonous, even the most milquetoast stand-alone legislative proposals have stalled.

One bill that seemed to have a decent chance at passage was sponsored by Republican Senator John Cornyn in 2007 and would have removed caps on employment-based green cards for workers with advanced degrees. (The bill wouldn't have scrapped H-1Bs, but it would have made them more easily available, which is better than nothing.) This went nowhere. Arlen Specter proposed something similar. This went nowhere. Last year, congressional Democrats such as Zoe Lofgren of San Jose proposed lifting the 7-percent-per-country cap on green cards. Guess where that went.

Lately, with the country in recession, Senators Charles Grassley and Dick Durbin have tried to restrict H-1Bs even further, stating that Americans should get an easier shot at available jobs. One especially prominent opponent of increased H-1B immigration is Professor Norm Matloff, a computer scientist at the University of California at Davis. Matloff believes that Silicon Valley is blinded by two vices: greed and ageism. Because of greed, technology companies hire H-1B immigrants, who save them money. Because of ageism, Silicon Valley pushes out older programmers who are perfectly qualified to do the work. Such practices not only force talented older Americans out of the technology industry, they also discourage bright young Americans from entering it, thus squandering some of the country's finest potential talents. American technology workers would be doing better if there were fewer foreign workers, says Matloff, and Silicon Valley would be just as profitable and innovative, if not more so.



Now, there's no way to say for sure that Matloff is wrong. But two points work against his overall line of thinking. The first is that high-skilled U.S. workers have enjoyed tremendous increases in wages in the past few decades, while low-skilled workers have seen losses and stagnation. To the extent that immigration has had a negative effect on the wages of American-born workers, the burden hasn't been borne by graduates of MIT.

The second is that from the perspective of the United States as a whole, it's worth remembering that even if Matloff is right about ageism in Silicon Valley (and if he is, we have a legal system to address such claims), the point of nourishing such a place isn't only to provide American technology workers with employment. It's to provide the nation with wealth and a technological edge. It's to help right our trade balance through high-tech, high-income industries. And to do that, we need to do more than simply fill available vacancies with qualified applicants. For any endeavor that aims to be the best of its sort, an oversupply of talent is necessary. For every professional violinist in the United States, dozens of nearly-as-good—or sometimes even superior—violinists are out of luck in the quest for orchestral employment. If we examine a different sector, such as professional basketball, all these principles are taken for granted. Take Yao Ming of the Houston Rockets. He's a one-man multi-million-dollar business, and his talent creates work for hundreds of Americans who work for him directly or indirectly in support roles. Undeniably, though, he is also taking away a job that an American-born basketball player could do instead, and there are thousands of American-born basketball players unable to find employment in the field. If the point of having basketball teams is to provide as many American basketball players as possible with jobs, then the United States is following a very wrongheaded immigration policy. (Out of fewer than 500 NBA players currently employed in the United States, more than seventy are foreign-born.) But if the point is to create the most competitive teams in the world and to broaden the appeal (and export, and merchandising, and ticket sales, and broadcasts) of basketball to as wide a world market as possible, then our current policy is rather good.

A sensible immigration policy would cease placing undue burdens on low-income Americans (in the form of millions of low-skill workers) and start adding to the ranks of high-skill workers, who generate greater innovation and wealth. An immigrant janitor competes for one of a limited number of janitorial jobs, and an oversupply of candidates merely drives down wages. But an immigrant inventor may devise a product that will be manufactured, distributed, marketed, and even exported—all processes that create jobs. While low-skill workers tend to take jobs, high-skill workers tend to make jobs. And high-skill workers who are displaced can at worst usually move down the job chain: an unemployed nuclear physicist may take a temporary job as a cashier. But low-skill workers who are displaced can rarely move up the job chain: an unemployed cashier cannot take a temporary job as a nuclear physicist.

The way forward, then, should be pretty simple in principle. Any student with an advanced degree in science, technology, engineering, or math should be offered a reasonable chance at permanent residency in the United States, provided that she can obtain (and retain) employment in her field. The overall aim of any policy we devise should be to prevent an exodus of the people we've educated.

Yes, we're in a recession. But that doesn't mean we can take a break in the race for economic and technological leadership—quite the opposite. The surest way to lose a battle is to forget that the primary goal isn't to make jobs for soldiers. It's to avoid getting one's ass kicked. WM

T. A. Frank is an Irvine Fellow at the New America Foundation and an editor of the *Washington Monthly*.

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GRID UNLOCKED

A smart, digital electric power system could bring vast energy-efficiency gains and a new wave of entrepreneurship—if Washington gets the regulations right.

By Mariah Blake

In the fall of 2002, Peter L. Corsell, a twenty-four-year-old former CIA analyst, decided to try his hand at the energy business. At the time, he knew nothing about the industry, apart from a few stories he had read in the *Wall Street Journal*. But he had a vague sense that renewable energy was going to be the next big thing. So he buried himself in research, reading books (he says he began with "the equivalent of *Electricity for Dummies*") and tracking down old acquaintances who he thought might know something—anything—about the business.

Ten months later, Corsell surfaced with an idea. Typically, putting up rooftop solar panels also means installing a tangle of wires, inverters, batteries, and other gadgets. Instead, Corsell envisioned a "plug and play" system that would combine these elements into a single unit that was quick and easy to install. With this in mind, he took out a second mortgage on his Northwest D.C. condo, and began pressing friends and family to invest in his venture. "Pretty much everyone who ever had the misfortune of knowing me, I hit up for money," Corsell recalls. Eventually, he cobbled together $1.6 million, and launched the company under the bland moniker Equinox Energy Solutions.

Early on, the venture ran into some stumbling blocks: the initial prototype, which was the size of a large refrigerator and cost $30,000 to build, had to be scrapped after tests revealed users were at risk of electrocution. (It has since come to be known as "Frankenbox.") But Corsell pushed on. In September 2004, a friend suggested he talk to Karl Lewis, a forty-something veteran of the information technology business. The two men met at a grungy Dupont Circle sandwich shop, where they spent four hours hashing out technical plans on paper placemats. As they did, a vision began to take shape.

After the meeting, the men teamed up and began hiring engineers and software programmers; twenty of them worked elbow to elbow in a single, unair-conditioned office. Part of the crew eventually spilled into Lewis's garage to hammer out a second prototype, which resembled a clunky black filing cabinet. Unlike the device Corsell originally envisioned, it had the brain of a computer, which meant it could juggle weather forecasts and electricity rates and decide automatically whether to store excess power from the solar panels in the batteries or sell it back to the grid.

The product finally hit the market in the spring of 2005. Only a few hundred were sold, but General Electric found the technology so promising that it offered to buy Equinox Energy for an undisclosed sum. Corsell declined, partly because it was beginning to dawn on him and Lewis that their creation had applications far beyond integrating solar panels. "We began asking ourselves, what would happen if we linked thousands of these things together," says Lewis, who is now the company's chief strategy officer. "What if, instead of firing up a new power plant every time energy demand surged, we could tap into an intelligent network, and hundreds of solar panels would automatically start feeding energy into the grid, or thousands of thermostats turned themselves down by a couple degrees?" With this in mind, he and Corsell rechristened the company GridPoint, and in the summer of 2006 began working on a trio of software applications to connect every piece of the electrical system, from the power plants and transmission lines to hot-water heaters and clothes dryers, into a vibrant energy ecosystem. They soon realized they were part of a burgeoning movement to build what is known as the smart grid.

These days GridPoint is thriving. Last September, as Wall Street was crumbling, the company managed to bring in $120 million in capital, more than it had raised in the previous six years combined. Among its funders are Goldman Sachs and former presidential hopeful Bill Bradley. The atmosphere at the company's Arlington, Virginia, headquarters is weirdly reminiscent of Silicon Valley in the 1990s. When I visited the gold-brick compound on a recent afternoon, a twentysomething blond woman in low-slung trousers and flip-flops trundled through the reception area with a wagon full of microbrew. "It's Thirsty Thursday!" she exclaimed.

Meanwhile, GridPoint's work is on prominent display in Boulder, Colorado, where the power company Xcel Energy is building the nation's first fully integrated smart grid. Using GridPoint's "Energy Dashboard," an Internet portal similar to an online banking site, Boulder residents can get a minute-by-minute snapshot of their energy use or program their appliances to behave in ways that save them money and benefit the environment. Dishwashers can be set to run only when windmills are turning. Thermostats can

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be programmed to automatically adjust their settings based on factors like the time of day and the price of electricity. This system is expected to drive down energy use, cut greenhouse gas emissions, and save Boulder residents millions of dollars.

GridPoint is just one of hundreds of new entrepreneurial ventures that are developing software and gadgets that marry electricity and digital intelligence. Along with giants like Google and IBM, these firms are forging the nuts and bolts of the smart grid, which will bring digital intelligence to one of the last vestiges of our analog economy: our electrical system. In doing so, they could revolutionize the way we use energy. Imagine a world where every dryer, dishwasher, hot-water heater, and car was part of a smart network that was working to make our energy system greener and more efficient.

The idea has captivated venture capitalists, who see the potential for sweeping innovation: smart grid companies are now attracting more venture funds than any other sector. It has also caught the attention of Washington. President Barack Obama has called building a smarter grid "one of the most important infrastructure projects" in America today, and noted that doing so is essential to realizing key energy goals—such as bringing more renewable energy online, paving the way for plug-in cars, and reviving the economy by creating millions of green-collar jobs. The stimulus package passed earlier this year makes a down payment on this vision, with $4.5 billion for smart grid investments.

But such measures will do little good unless they're accompanied by deep changes to our patchwork regulatory system for electricity, which rewards inefficiency and stifles innovation. And as a result of a historical glitch, this system is the domain of states, meaning it is beyond the direct reach of Congress and the White House. How our leaders tackle this quandary will determine, to a large degree, whether the innovations that gave rise to start-ups like GridPoint are just a passing trend or the first rumblings of an Internet-style revolution that will forever transform the way we use energy.

The regulatory system we have today was born of treachery and scandal. In the early 1900s, a handful of sprawling national conglomerates, known as public utility holding companies, began gobbling up local power companies. Using dubious accounting schemes and complex ownership arrangements, they drained their subsidiaries of profits, in part by charging them inflated rates for services like building power plants. As a result, people in most parts of the country were forced to pay outrageous sums for shoddy service—assuming they had service at all.

The power of the holding companies was legendary: Senator George Norris once said government could "no more contest with this giant octopus than a fly could interfere with the onward march of an elephant." But the ground began to shift after the stock market crash of 1929, when these firms (many of them built on piles of debt) began unraveling. The most spectacular debacle was Samuel Insull's $3 billion empire, which collapsed in 1932, wiping out the life savings of many of its 600,000 shareholders. Several years later, Insull died of a heart attack in the Paris metro with only a few cents in his pocket.

GridPoint's headquarters is reminiscent of 1990s Silicon Valley. "It's Thirsty Thursday!" exclaimed a twenty-something blonde trundling through the office with a wagon full of microbrew.

Congress seized the opportunity and in 1935 passed the Public Utility Holding Company Act, which broke up the big power companies. Under the new system, utilities were limited in their geographic reach, usually to a single state, and were given a monopoly over the region they served. They were also required to answer to state regulators, who were charged with setting rates based on two factors: how many power plants utilities built, and how much electricity they produced. This system was meant to keep prices low (customers could no longer be charged inflated rates for power plants or extras they didn't need). It also created an incentive for utilities to deliver power to every corner of their service area, which made sense at a time when 90 percent of the rural population didn't yet have electricity.

But by the 1960s electricity reached into even the remotest part of the country (thanks largely to another Depression-era program, rural electrification). Since then our biggest challenge has been finding ways to make our energy use more efficient and reduce our dependence on fossil fuels. But in most areas of the country, the regulatory rules continue to reward companies for building more power plants and churning out more electrons—a system that works against these goals. Also, the lack of competition between power companies means there's little incentive to innovate. And those that try are often stifled by regulators, who are wary of approving investments in novel technologies. The upshot? While the rest of our economy has raced ahead, becoming smarter and more interactive, our grid remains a clumsy, analog beast based mostly on 1950s technology. "For the last eighty years, we've been laboring under Depression-era rules," say Kurt Yeager, former president of the Electric Power Research Institute, an industry-funded think tank, and current executive director of the Galvin Electricity Initiative. "And those rules are toxic to innovation. As a result, our grid is frozen. It has turned into a museum piece."

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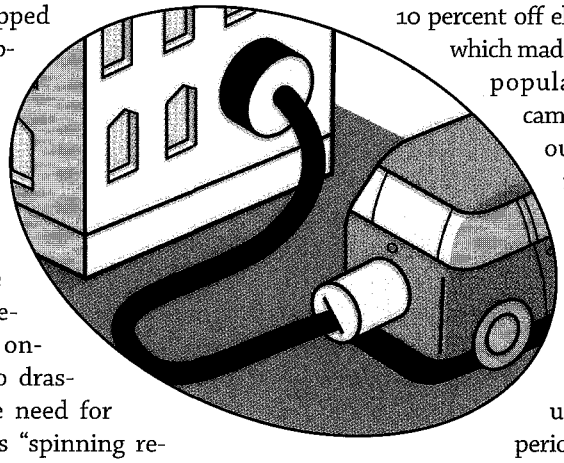
The lack of innovation means grid operators have to rely on crude tools to manage the flow of electricity and diagnose and repair problems. When power goes out in most parts of America, the only remedy is to send a truck to hunt for the downed line. This creates a drag on the economy—outages alone cost a staggering $100 billion a year—and leads to enormous inefficiency and waste.

As we struggle to kick our carbon addiction, the shortcomings of our system only become more glaring. Within the next few years, plug-in hybrid electric cars are expected to hit the market en masse. These will need far less gas than the current generation of hybrids, such as the Toyota Prius, which charge their batteries by harvesting the energy from braking and acceleration rather than by tapping into the grid. As a result, this new breed of vehicles could drastically cut our dependence on oil. But they will also drive up demand for electricity, which could strain our patchwork grid—a system that is already running on the ragged edge of failure. Oak Ridge National Laboratory recently studied what would happen if a quarter of all U.S. cars were plug-in hybrids. Assuming they all plugged in during the early evening, when most people get home from work and demand for electricity is highest, we would have to build as many as 160 new power plants, mostly coal-fired behemoths. On the other hand, if the grid were smart, cars could be programmed to power up when demand is lowest—say, in the middle of the night—and to coordinate their charging times. In that case, it's possible that not a single new power plant would have to be built.

The combination of a smart grid and plug-in cars also solves another problem. One of the largest stumbling blocks to bringing large amounts of green energy online is the lack of storage on the grid. Because electricity moves at almost the speed of light and has to be used the moment it is produced, grid operators are constantly juggling supply and demand. Without the ability to store power and manage the flow of electricity on a micro and a macro level—something that becomes far easier when digital intelligence is added to the grid—intermittent power sources like solar and wind power can throw off the fragile balance of the system, causing surges and blackouts.

But once we have a critical mass of plug-in cars, their batteries can be tapped as a vast, distributed storage network. This, combined with a smart and nimble grid, could make it possible to bring huge quantities of renewable energy online. It could also drastically reduce the need for what is known as "spinning reserve"—keeping extra power plants idling in case a generator goes down. Often this means coal plants are belching carbon into the air even when they're not producing power.



Add smart appliances to the mix, and the possibilities multiply. In 2006, Pacific Northwest National Laboratory teamed up with the Bonneville Power Administration and outfitted 112 homes on Washington's Olympic Peninsula with smart meters, which gave customers a minute-by-minute breakdown of how much electricity every appliance was using. Customers were also given smart thermostats, smart dryers, and smart water heaters, and were signed up for real-time pricing. This means energy prices varied minute by minute, like the prices paid by power companies rather than the flat rates paid by most retail customers.

Using a simple software interface, homeowners programmed their appliances to strike the right balance between comfort and economy. Jerry Brous, a sixty-nine-year-old retired steel worker who participated in the study, says the system was "easy as pie" to use. "I live in a retirement community, and some of the older folks weren't sure at first that they could do it," he adds. "But I'd walk them through it, and they'd be off and running." The rest was left up to the devices themselves, though consumers were free to override the controls. The thermostats, for instance, took incoming price information, matched it against the homeowner's preference, and adjusted the temperature accordingly. Most of the time, these subtle differences went unnoticed by homeowners. But they shaved an average of 10 percent off electricity bills, which made the program popular: when it came time to tear out the equipment, many participants protested. What's more, the program reduced power usage during periods of peak demand by 15 percent.

This is key, since energy efficiency is the shortest route to cutting our emission of heat-trapping gases. If the entire country reduced its energy use by 10 percent, we would produce 660 million tons less carbon dioxide per year, according to the American Council for an Energy-Efficient Economy. That's the equivalent of taking nearly half of American cars off the road. Shifting energy use away from periods of peak demand also creates major benefits. Roughly 45 percent of our power plants are what are known in industry circles as "excess capacity," meaning they are fired up only a few days, weeks, or months a year when demand surges. The rest of the time, they sit idle. Flatten out the peaks, and far fewer plants will be needed in the future. In fact, if we could lower peak demand by a mere 5 percent, we would have to build 625 fewer power plants over the next twenty years, according to a study by the Brattle Group, a research and consulting firm. What's more, since it is usually costly gas-fired plants and dirty diesel generators that are used to meet peak demand, lowering the peaks would also cut carbon emissions and drive down power prices.

Of course, the Olympic Peninsula Project was just a modest prototype. Customers in Boulder, where 50,000 homes are being outfitted with smart

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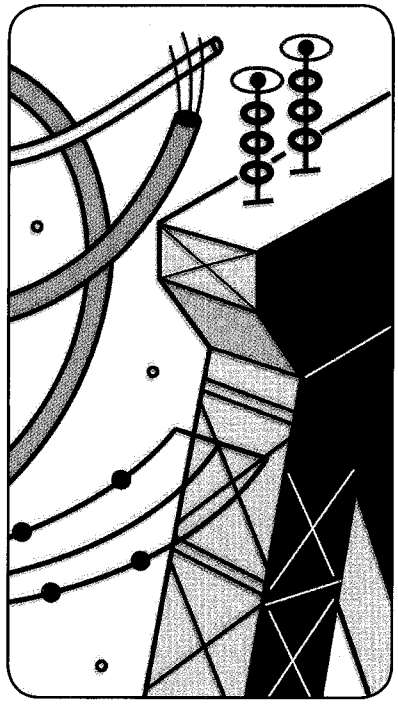
technologies, will have a far broader menu of options. Instead of just three devices, they will have access to numerous smart appliances and gadgets (in part by using smart plugs). They will also be able to link other technologies—like solar panels and plug-in hybrids—into their intelligent home networks. This means, among other things, that they can program their cars to charge up when the price of energy dips, and sell some of the power back to the grid when the rate climbs. As part of the program, energy prices will also vary based on demand and energy source, so electricity from wind power costs less than that from coal-fired plants. Thus, customers will be rewarded for running their energy-hungry appliances when the grid is flush with clean electricity.

This program is expected to drive down energy demand by as much as 30 percent, and reshape the way the remaining supply is used, drastically cutting the city's carbon footprint and residents' energy bills. Indeed, the Electric Power Research Institute has found that investing $100 per customer annually in smart technologies could save consumers an average of $500 per year—a net savings of $400.



What's happening in Boulder may be just the first hint of the smart grid's potential. Indeed, if history is any guide, adding digital intelligence to our grid will open up possibilities that stretch the limits of our analog imaginations. Who, in the early days of the Internet, envisioned YouTube or Google Earth? Drew Clark, of IBM's Venture Capital Group, which scans the horizon for the next big thing in digital technology, sees the smart grid as a Web-like platform for innovation. "Picture something akin to an iPhone store," he explains, "a place where tens of thousands of entrepreneurs are building 'apps' and services to address critically important challenges, like shifting to renewable energy as rapidly as possible or making our energy system more efficient."

Adding digital intelligence to electric devices also opens the way for sweeping innovation in dozens of other industries, from automaking to appliance manufacturing. (Imagine if your air conditioner could e-mail the repair shop when it detected a technical problem, or if your refrigerator could inventory its contents and automatically place orders for missing staples with an online grocer like Peapod.) And with innovation comes productivity gains, job creation, and rapid economic growth. But the clock is ticking. Presuming other countries will be smartening up their grids—and many of them already are—the one that does so quickest will have the first-mover advantage in developing software and other tools, meaning it will likely be a market leader for years to come. These facts are not lost on lawmakers: a growing number have come to see overhauling our grid as a promising route to getting America back on its feet and securing its leadership position in the world. Senator Maria Cantwell, a Washington State Democrat, has called it the "largest economic opportunity in the twenty-first century."

But to get these benefits, we have to overcome the stumbling blocks that are built into our Byzantine regulatory system. The retail electricity market in the United States is made up of more than 3,000 power companies, each with a government-granted monopoly. Though some are publicly owned municipal utilities and community cooperatives, the vast majority of our power supply—roughly 75 percent—is delivered by private firms, whose first concern is their bottom lines. And in most parts of the country, how much profit they make continues to depend on how many power plants they build and how much power they churn out. Thus there is little incentive to invest in smart technologies that help customers use energy more efficiently. In fact, doing so works against their interests.

Those companies that do try to add digital technology to the mix or explore novel business models continue to have trouble getting the plans by state regulators. There is simply no place in regulators' calculations (which in many cases are still based on Depression-era rules) for factors like money saved by *not* building power plants, much less for the broader benefits that come with a smarter grid. A case in point: last year, Duke Energy, one of the nation's largest power companies, sought approval from the South Carolina Public Service Commission for a program called Save-a-Watt, which would allow it to get paid for every power plant it avoided building, but regulators vetoed the plan.

Congress has begun to grapple with this dilemma, but most of the solutions it has settled on so far only nibble around the edges of the problem. (For instance, the Energy Independence and Security Act of 2007 requires regulators to study the broad societal benefits of smart grid investments and consider taking them into account.) The notable exception is the stimulus package, which provides $4.5 billion in matching grants for smart grid projects.

This could help overcome the inertia that has kept power companies from investing in smart technologies at all. But it will take at least twenty times that much money to outfit our entire grid with digital intelligence. And technology alone will do only so much good. To be sure, once there are digital sensors on the lines, power companies can better manage the flow of electricity, which will

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lead to fewer blackouts. They can also detect and repair problems remotely—no more sending trucks to hunt for felled power lines. But this is only the first step to unlocking the smart grid's potential, just as the old IBM mainframes with their centralized control of information were just the first stage in the computer revolution. It was only with the arrival of PCs, which put computing power in the hands of ordinary people, and of the Internet, which linked those computers into vibrant interactive networks, that we got the tsunami of innovation that brought us previously undreamed-of ventures like eBay and Twitter.

When it comes to turning our electric grid into a thriving network, smart meters are the key. Once customers have a detailed minute-by-minute breakdown of their electricity consumption, they can become active players in managing our power supply. But first they have to be given the data in a form they can use. Ideally, this means an open nonproprietary format, so third parties can package the information in ways that are useful to consumers. In March, Google sent former astronaut Edward T. Lu to press Congress on this front. "Personal energy information belongs to consumers," Lu said, "and they should control who has access to it."

However, many power companies are reluctant to provide customers with detailed data about their energy use, much less in a format that could be used by third parties. Doing so would loosen their grip on the monopolies they've held for the better part of a century. Instead, many utility executives see smart meters as simply another tool for streamlining their own operations—by, for instance, getting rid of meter readers.

Giving customers detailed information about their energy use is just half of the equation, however; the other half is offering them the option of time-based pricing. That way they can save money by using energy in a manner that makes the entire system cleaner and more efficient. Also, giving people the tools to save by making smart energy choices will feed demand for things like smart appliances and energy management software, which means there will be more room for entrepreneurs to profit by finding creative solutions to our energy woes—and more incentive for them to do so. But in most parts of the country, regulators have refused to allow rates to fluctuate, arguing that it's too risky for consumers. (Smart grid enthusiasts counter that allowing some customers to move to time-based pricing doesn't mean all of them have to. And besides, if dynamic pricing were combined with smart technologies, even consumers who used energy during periods of peak demand would probably see their bills drop, because the entire system would be so much more efficient.)

Hundreds of new ventures are developing software and gadgets that marry electricity and digital intelligence, transforming one of the last vestiges of our analog economy.

In lieu of offering time-based pricing, some utilities have proposed that *they* be allowed to adjust the settings on people's appliances or pick the charging times for their cars. But the Big Brother overtones of this approach make it a hard sell. Last year, when the Northern California power company Pacific Gas and Electric tried to get permission to reach into people's homes and adjust their thermostats, it triggered a nationwide outcry—not to mention a rash of conspiracy theories.

What can Washington do to clear away these regulatory hurtles, given that the most vital pieces of the electricity network are controlled by states? Smart grid advocates have floated a variety of ideas. Some, like Dan Delurey, head of the Demand Response and Smart Grid Coalition, favor a series of small steps, like setting a national standard for lowering peak demand. If states were required to shift, say, 10 percent of energy consumption away from periods of peak usage, he argues, it would change the face of the industry. "Once lowering peak is established as a goal, utilities have every reason to invest in things like smart meters and distributed storage, and to offer options like time-based pricing," Delurey explains. "This one stroke could change the entire landscape." The sweeping climate bill that was introduced by Representatives Henry Waxman and Ed Markey in April would move the country in this direction by requiring states to set their own goals for lowering peak demand.

Other smart grid advocates favor a more direct approach. Bracken Hendricks, who studies energy issues at the Center for American Progress, has proposed creating a national fund that offers grants for smart technologies and then requiring states that take the money to meet certain criteria—for instance, giving customers the option of time-based pricing, or breaking the link between power-company profits and the amount of energy produced. This could help overcome the inertia that has scuttled investment in smart technologies, while making sure these tools are put to good use.

Such measures are sure to be controversial because they would wrestle some control of vital infrastructure away from states. But without bold action on the federal level, we will never see the full potential of the smart grid, and many of our national energy goals, such as widespread deployment of renewable energy, will remain out of reach. No one knows this better than those who have devoted themselves to remaking our power system. "The smart grid will never be what it could be, and we as an industry will never really succeed, unless the regulations are overhauled," says Corsell of GridPoint. "That is the bottom line." WM

Mariah Blake is an editor of the *Washington Monthly.*

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A SHOT IN THE ARM

How today's health care reform can create tomorrow's entrepreneurs.

By Jonathan Gruber

This spring, some conservative and libertarian bloggers, aghast at Barack Obama's expansive government agenda, began calling on investors and entrepreneurs to protest by "going Galt"—that is, withdrawing their money and productive energies from the economy. The allusion is to John Galt, the hero in Ayn Rand's *Atlas Shrugged*, who leads America's creative entrepreneurs in a strike against a wealth-sapping collectivist establishment and brings the economy to its knees.

Of course, the fact that the economy is *already* on its knees might blunt the point of such a strike today. Still, entrepreneurs do play a vital role in the prosperity of this country. So it's worth asking how their behavior might be affected by Obama's policies. An excellent starting point is the biggest single initiative in President Obama's budget, a down payment toward universal health insurance coverage for all Americans. In this case at least, the protests are obviously misplaced. Universal health insurance, far from suppressing entrepreneurship, could be a boon to it.

The main reason for this is a phenomenon known as "job lock," a term coined during the last round of debate over universal health coverage in the early 1990s. Job lock refers to the fact that workers are often unwilling to leave a current job that provides health insurance for another position that might not, even if they would be more productive in that other position. This is because employer-provided insurance is traditionally the only reliable form of fairly priced private insurance coverage available in the U.S. The alternative is to purchase insurance in the nongroup market, where insurance prices and availability are typically not regulated, so insurance companies can drop individuals when they become ill or charge them exorbitant prices. As a result, individuals feel "locked" into less productive jobs.

Over the past fifteen years, dozens of studies have documented the detrimental impact that job lock has on the economy. These studies typically compare the mobility of workers who are at firms with insurance but do not have an alternative source of coverage (such as spousal insurance or COBRA continuation coverage) to those who do have an alternative source of coverage should they leave the firm. The studies find that mobility is much higher when workers do not have to fear losing coverage; job-to-job mobility is estimated to increase by as much as 25 percent when alternative group coverage is available.

Job lock is a serious problem for our society, because one of the bedrocks of our long-term economic success is our fluid labor markets compared to other nations, like France and Germany, that make it expensive and administratively burdensome to hire new employees or to fire unproductive ones. Job lock diminishes our international advantage in this area, since other nations with universal health insurance coverage do not have this problem. In addition, individuals will be less happy and less productive in positions that they would prefer to leave but for the loss of insurance. Employers will lose, because the workers they retain through job lock are those who value insurance the most, not necessarily those who are the best long-term fit for the company.

Which brings us back to entrepreneurship. Some of tomorrow's potential entrepreneurs are today's employees at firms that provide health insurance. They may have powerful new ideas that will build the firms of tomorrow. But if they leave their current job to work on those ideas they may find themselves without access to reliable health insurance. If they are very young and healthy, this may not be a major impediment. But for older entrepreneurs who have developed ideas through years of working for others, the fear of losing health insurance when they go out on their own can be a barrier to taking that leap.

There are fewer direct studies of the impact of job lock on entrepreneurship. But the most convincing research, by Alison Wellington, mirrors the findings of other job mobility studies: Americans who have an alternative source of health insurance, such as a spouse's coverage, are much more likely to be self-employed than those who don't. Wellington estimates that universal health care would therefore likely increase the share of workers who are self-employed (currently about 10 percent of the workforce) by another 2 percent or more. A system that provides universal access to health insurance coverage, then, is far more likely to promote entrepreneurship than one in which would-be innovators remain tied to corporate cubicles for fear of losing their family's access to affordable health care. Indeed, even the Galtians among us should be celebrating the expanded potential for individual enterprise once the chains tying them to a job that provides insurance have been broken.

Opponents of universal coverage will point to three additional reasons to oppose such a policy. The first is that the government will impose a burdensome "employer mandate" or "pay or play" scheme under which business owners must either provide coverage for their employees or pay into a public fund to help finance universal coverage. The second concern is that a universal health care system might disrupt existing insurance relationships, perhaps forcing businesses to buy insurance that is more expensive than what they

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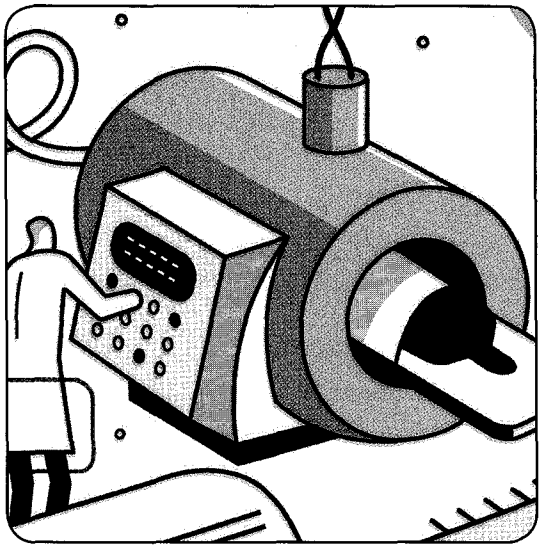
currently have. The third worry is that the burden of financing universal coverage might fall on them in the form of higher tax rates. These are all legitimate issues, but they depend very much on the specifics of how universal coverage is enacted.

The first concern is overblown for the simple reason that most of the existing employer-mandate or pay-or-play proposals exempt small firms and the self-employed. For example, the universal health care law passed in my home state of Massachusetts in 2006 imposes an assessment of $295 per employee on businesses that don't provide their workers with health coverage, but that assessment does not apply to firms with ten or fewer employees.

As to the second concern, about disruption, most discussions of universal coverage today center on an approach I call "incremental universalism": building on the existing set of private insurance arrangements to fill in the holes for those who cannot access fairly priced insurance. Individuals and firms that are satisfied with their insurance arrangements will be largely left alone as part of these reforms. Moreover, if the reforms are successful and more people are brought into the system, the resulting economies of scale may allow for *lower* health care costs going forward, which would benefit entrepreneurs as well as other workers. Indeed, after Massachusetts enacted universal health care, the elected officials and interest groups that supported the measure had an interest in making sure the reform was financially sustainable, and so threw their weight behind a major new piece of cost-control legislation that set up a commission that is taking on the high provider rates that make health care so expensive in our state. If this new legislation is successful, then not only will the state have covered the minority of its citizens who were uninsured—it will also have used this as a springboard to lowering costs for the majority who were already covered.

Of course, any expansion of coverage must be financed, at least in the short run. To some extent the financing can come from existing efficiencies in our health care system, such as the reduction in overpayments to private Medicare plans proposed by President Obama in his budget. But this will not be enough. Other sources of financing will be required in the short term, and this may lead to the third concern: higher tax rates on income. Will these higher taxes deter entrepreneurship? The evidence here is unclear. One study, by Donald Bruce and Mohammed Mohsin, found that tax rates have little effect on the decision to become an entrepreneur. Another study, by William Gentry and R. Glenn Hubbard, found that raising the taxes on the rich alone could deter risk taking because it would remove some of the financial reward for successfully investing in entrepreneurial ventures.



With this in mind, policymakers should push for a financing source that would clearly not deter entrepreneurship: capping the subsidy provided through the tax code for employer-provided health insurance. Currently, workers are taxed on their wages, but not on the value of their employer-provided health insurance. Likewise, the self-employed can deduct the full cost of their health insurance from their taxes. These foregone taxes amount to $250 billion per year, making this the third largest health care program in the U.S. Moreover, this tax policy leads to overconsumption of insurance, because workers purchase insurance with untaxed dollars. If MIT offers me higher wages, I only keep about sixty cents on each dollar of that raise because of taxation. But if they offer to add a new benefit to my health insurance plan instead, then I get the full dollar value of that benefit without taxation. Numerous studies have shown that this "tax bias" toward health insurance over wages leads to a dramatic increase in employer insurance spending.

One natural source of financing for universal coverage is to "cap" this tax subsidy. For example, the government could announce that it would tax employed individuals on any insurance premium that exceeds the average cost of insurance in their area. Similarly, the government would allow the self-employed to deduct the cost of their insurance premiums from their income taxes, but only up to the average cost in their area. Therefore, for any business or self-employed person who buys insurance at the average cost or below, there would be no change in taxation. This would raise substantial revenues but would in no way deter individuals from investing in or starting new businesses—it would simply encourage entrepreneurs to buy low-cost policies in order to avoid taxation.

The type of universal health insurance coverage policy proposed by President Obama will clearly promote the freedom of workers to leave their jobs to start new companies. By solving a major impediment to mobility in the U.S. labor market, a larger government goes hand in hand with more business development. The next John Galt may owe a debt of gratitude to this pioneering effort in universal coverage. WM

Jonathan Gruber is a professor of economics at MIT and a member of the Massachusetts Health Connector Board.

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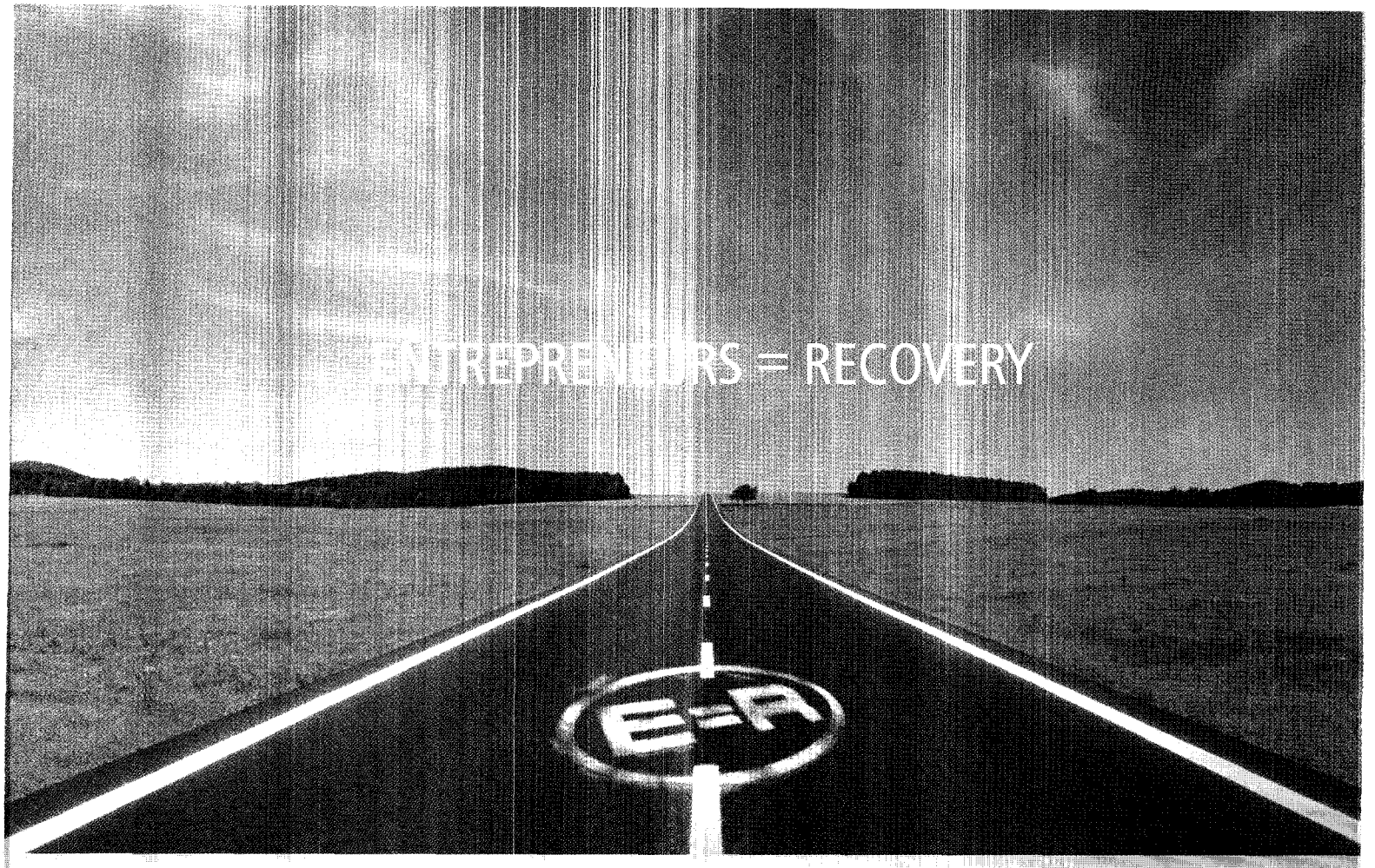

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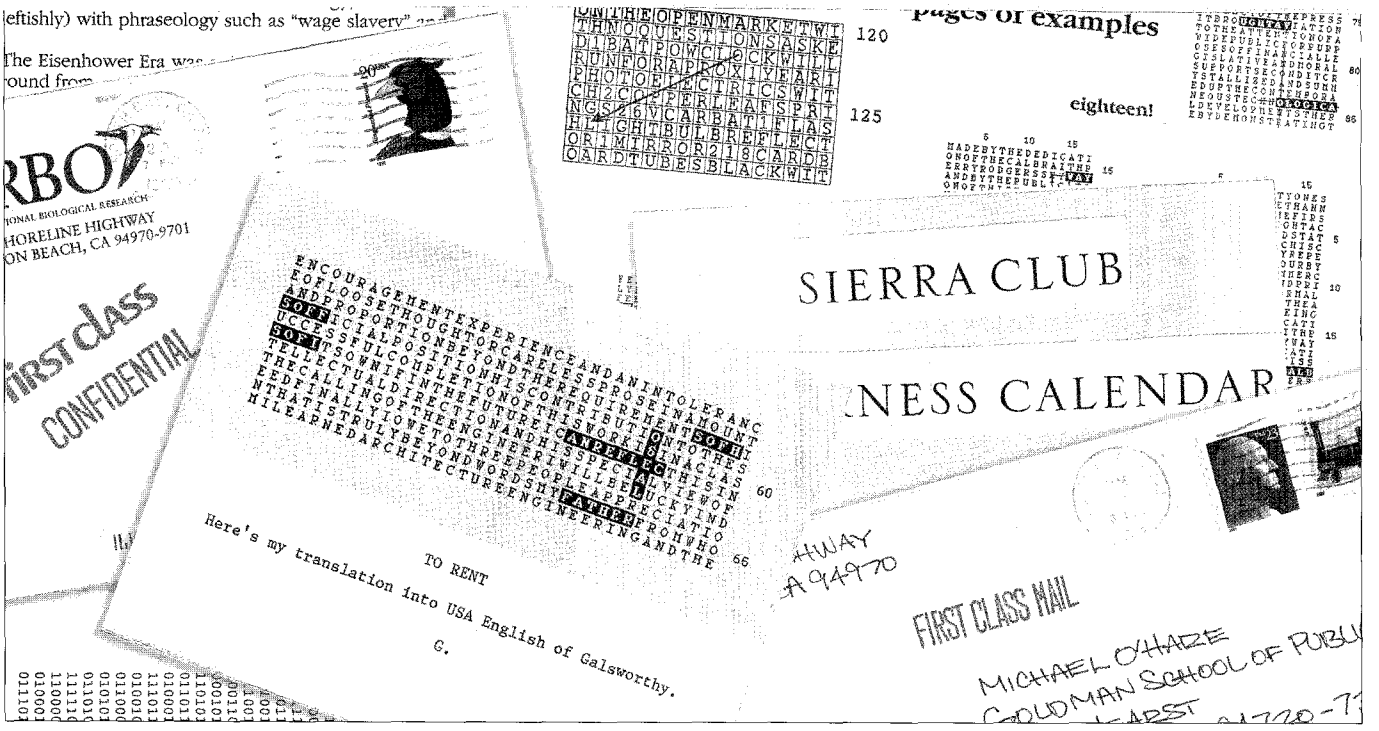

Courtesy of Michael O'Hare

Confessions of a Non-Serial Killer

Conspiracy theories are all fun and games until you become the subject of one.

By Michael O'Hare

Sometime in the early 1980s, when I lived in Cambridge, Massachusetts, I received a postcard with a name and return address I didn't recognize, bearing a cryptic image on the back. Every few weeks after that I received another card. There was one with holes punched in it, one with a symbol that resembled crosshairs, one with a picture of a man in sunglasses and a hooded sweatshirt, and one with a string of binary digits. The return addresses and postmarks kept changing. Assuming a friend from college was trying to get me to play some sort of puzzle game—a recreation for which I have no patience—I threw them in a drawer, a little guilty that he was going to all this trouble.

Then I received an article reciting details of the unsolved "Zodiac murders" that had unfolded in Northern California more than a decade earlier. In an episode that has since been recounted by countless journalists and Hollywood filmmakers, the killer had ambushed and slain five people. to: (The murderer has never been identified for certain, although numerous people have claimed to pinpoint the culprit—including a San Francisco woman who held a press conference in April declaring her father was the Zodiac killer.) He then sent letters to Bay Area newspapers threatening to kill many more unless they published a series of cryptic symbols, an act that created widespread panic. Included in the article I received were descriptions of the symbols, which sounded just like the ones on the postcards in my drawer. "Holy cow!" I said. "I'm getting mail from a mass murderer!" I called the local FBI branch, and a nice young woman with an FBI badge came to my office, picked up the collection of mail, said thank you, and left.

A week later, another agent came by with everything in a plastic envelope, gave it to me, and said, "Don't worry, he's harmless."

"He's what? What do you mean, harmless?"

"Don't you know about this guy?"

"I don't know what you're talking about. Do you mean the murderer?"

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The agent then explained that the mail was from an amateur sleuth in California named Gareth Penn, who had been trying for some time to interest the police in the idea that I was the Zodiac killer. Perhaps he was trying to alarm me into confessing or doing something incriminating. Who knows. Even today, I know little about the man, beyond the odd detail I've picked up here and there—like the fact that he is a librarian and surveyor by trade, that he has (or had) a wonderful Jesus beard, and that he is a member of Mensa. About the details of Penn's theory, I know next to nothing (curious readers could find them in Penn's two self-published books on the subject), except that it has made me the subject of a particularly bizarre and vacuous chapter in the annals of American criminal justice.

I don't want to be cute about the murders, which not only left victims and grieving relatives in their wake, but also frightened a lot of people, and frustrated California and Massachusetts law enforcement. So, for the record: I am not the Zodiac killer, had absolutely nothing to do with those (or any other) murders. As far as I know, I wasn't even in California when any of them happened. Similarly, I had nothing to do with the death of Joan Webster, a Boston college student whose murder Penn has also tried to pin on me. A note to Zodiac hobbyists and Penn aficionados: Please don't bother parsing the foregoing for cleverly worded nondenials and numerological incriminating clues; if you don't like my choice of words, feel free to make up other language that you would take as a flat, comprehensive, unqualified denial, and assume I said *that*. What follows will tell you nothing at all about Zodiac or Webster; it's a personal history of being struck by low-voltage lightning out of a clear blue sky.

"I don't know anything about the murders!" I told the reporter. "Why are asking me?" "But this Mr. Penn says you committed them!" "Well, do you think I did it?" "But you must know something about it." "No, I musn't."

The decades since Penn fixed his sights on me have not been a living hell, much as that would spice up this story. They have been an ordinary life, punctuated by one or another flurry of fuss from Penn, sometimes involving pages of numbers (for example, the data pages from my PhD thesis) with this or that sequence picked out, circled, and "decoded" into words that fit somehow into Penn's model of the crimes. As I understand it, Penn first decided I was the culprit after analyzing the Zodiac's messages to the *San Francisco Chronicle* and determining that the murderer was an artist with the initials HOH, whose crimes formed, on a map, some sort of graphic having to do with a radian (the angle formed by laying a circle's radius along its circumference, about 57 degrees) and Mt. Diablo, a Bay Area landmark. There is also something about water, whose chemical formula is sometimes written HOH, and my initials (my middle name, which I rarely use even as an initial, is Henry).

Before approaching me, Penn apparently made himself a nuisance to the California Department of Justice. Early on I was in touch with a nice investigator there named Fred Shirasago, who knew Penn's father and could sometimes get him to make his son stop harassing me for a while. But I guess when you know something terribly important that the entire world thinks is hooey, it gets harder and harder to let it go.

My favorite episode was the phone calls. Sometime in the 1980s, I started getting them at two and three in the morning. When my wife or I answered, a male voice would say something vaguely threatening like "I'm coming north, and I'm going to get you soon!" We told the Brookline police about it, got them to drive by more frequently, and eventually it stopped.

I only discovered the reason for the calls much later, during one of my occasional trolls through the Internet to see if I'm still of interest to Zodiac amateurs. The calls were supposed to be transmitting coded messages via numbers—in particular, the time of the call! Apparently, Penn's assumption was that when the average person is aroused by the phone in the middle of the night, the first thing he does, before woozily answering, is to note the time of the first ring on the digital clock he keeps by the bed—which is, of course, synchronized with the clock in the Naval Observatory. If your clock (or his) is off by just a couple of minutes, the call that was supposed to register as "2:14"—code for "Got you dead to rights this time"—will be misinterpreted as "2:16," which I think means "The Sox can't make the playoffs without a closer." (Sadly, I've lost the magic decoder ring I got in exchange for cereal box tops as a child, so I can't be sure.) The story got even better years later, when I discovered that a Penn skeptic had been calling him at home at times that figured into Penn's theory, whereupon Penn assumed the calls came from me and "returned" them to my house, so he thought he was having a conversation with me, all in three-digit numbers.

During the era of late-night phone calls, I got the impression—how, I no longer remember—that Penn was also trying to get volunteer vigilantes to visit summary justice on me. (Penn has said in his own writing that he was contacted by would-be vigilantes, but when he found out what they were after he had nothing more to do with them.) One of my friends suggested I might want to get a license and carry a gun. I entertained the idea for about five minutes, but

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decided if I let Penn affect how I lived in any way—and carrying anything more dangerous than a Swiss Army knife is far from my idea of normal—there would be no end to it. Anyway, expecting to get the drop on some stranger who came after me with murderous intent was obviously ridiculous: being shot trying to get your piece out of a holster is not much better than just being shot.

The Zodiac business occasionally broke into public view, most weirdly in 1987, when the *Boston Herald* published a front-page story, "Author Targets Harvard Lecturer in Zodiac Case." A dumbfounded friend showed it to me when I arrived to work at the Kennedy School of Government, and I braced for a rash of headlines. But that was it: one story without a column inch of follow-up, a day of people being nice to me (the *Herald* is not, shall we say, the Lexus of the Boston press), and perhaps a few colleagues giving me extra space to pass in the corridor. This was thanks in part to Marvin Kalb, a veteran television journalist who was on the Harvard faculty and gave me some good advice about how to handle media calls: I wrote a boring denial and offered it to reporters requesting interviews. They all lost interest, except one nitwit who called me to ask questions about the Zodiac case itself.

"I don't know anything about the murders! Why are you asking me?"

"But this Mr. Penn says you committed them!"

"Well, I guess you have to interview him. Do you think I did it?"

"But you must know something about it."

"No, I mustn't. Are you out of your mind?"

On another occasion, a morning radio host in Los Angeles invited me to be interviewed on his show about some city planning issue. When I called in, he asked two or three clueless questions about housing, and then blurted out that he had Penn on another microphone. Apparently, he thought he was a junior Geraldo Rivera doing an ambush interview, which, naturally, would segue into a debate about whether I had killed six people. I got an apology from the station manager for that.

It was around this time that I had the idea to sue Penn. Not only had he become more vocal about his accusations, but I had also heard he had married into some money, and thus might help pay for my kids' college. I met with a well-regarded personal-injury lawyer in Boston and told him the story, giving him my cache of early Penn memorabilia. He said, "I would love to try this case. It's absolutely perfect. But I won't take it."

"Why?"

"Well, do your kids still hug you when you come home from work? Does your wife still sleep with you?"

"Yes, of course."

"Do your students still pay attention in class?"

"Still? Well, as much as ever, I guess."

"Right. So you've suffered no damages. You will win the lawsuit and get an award of one dollar, and Penn will get publicity he's obviously dying for. Forget it."

I'm a little sore at the lawyer for having discarded my file a few years later in an office cleanup, but as Penn keeps sending me the odd mysterious letter or postcard, I've accumulated another whole folder of truly bizarre correspondence for my biographer (or Penn's) to enjoy. And the lawyer's advice turned out to be sound. Indeed, the constant of this story is that, as far as I can tell, not a single person who matters in my life—not law enforcement, not friends and family, not students, not colleagues—ever gave Penn's views a minute's credence, so I've never regretted not lifting a finger to refute them or defend myself. Recently I asked my wife and daughters about how they have taken this whole thing. Daughter number one, the earnest save-the-world schoolteacher, was outraged that anyone could say such awful untrue things and not suffer any consequences. She still worries that people she doesn't know might suspect me of the crimes. Daughter number two, the free-spirited writer, loves weird, off-center stuff and browses the Internet occasionally to see what Penn is up to now. My wife first thought it was silly, then was a little afraid when Penn's fans appeared willing to take the law into their own hands, but now looks back on the whole ordeal as just an irritating distraction. I've never apologized to them—but what would I apologize to them *for*? My initials?

I had to tell my students that someone was trying to pin the murders on me, to be sure they didn't hear about it for the first time on TV. I had the full attention of the class at least one day that semester.

My contact with Penn has died down to three or four letters a year that he sends me at my office, where I drop them unopened in the folder with the others. But the Zodiac case continues to interest journalists, and Penn's enterprise sometimes gets a little play. Seven years after I moved to Berkeley in 1991 to teach at the University of California, *America's Most Wanted* was planning a program on the Zodiac murders, which was to include an interview with Penn. I was invited to be interviewed on camera as well. That seemed like one of the worst ideas ever. A local lawyer I knew through my kids' school was nice enough to send the show a letter, pointing out a recent case that had socked a newspaper with hefty damages for retailing libel by

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saying "Jones said X, Y, Z about Smith" and not checking to see if Jones was playing with a full deck. Penn didn't appear on the program, and later wrote my lawyer to complain. I did have to explain the entire saga to my students the week before the show was scheduled to run, to be sure they wouldn't hear about it for the first time on TV. I had the full attention of my class at least one day that semester. Of course, I had made a point of explaining the story to my deans on day one—when I worked in state government I learned not to let your boss be surprised by anything, if you can help it. (One of the deans, it turned out, had been a real cryptographer, and offered to trash Penn's efforts in that line if I ever needed him to.)

Over the years, I've gotten the occasional whiff of how hard Penn was working on his project and the kind of evidence he had collected. For instance, I spent a summer in San Francisco—in 1969, I think—working at Arthur D. Little, Inc., on a study of expanding the San Diego airport. This emerged from Penn's analysis as having been a ski condominium development in Lake Tahoe (a project I had had nothing to do with); how it connects to the crimes I have no idea. Later, he predicted that Webster's body would be found at a specific location in the Boston suburbs, and, I believe, cruelly misled her poor parents for some months (she was later found many miles away). At another point, he thought I had buried her on property I owned in Vermont. Once when I was there, tending the garden, I looked up and saw a small plane flying low overhead. An aerial photo of the house later appeared in my mailbox back in Brookline, without comment. (I *think* it was sent by Penn; most of the mail I believe I'm getting from him is in unmarked envelopes, or signed by various people named Mike.) I understand Penn also predicted that I would commit suicide in a particular way on a particular date, but I was not informed in time to comply and am now many years overdue.

At one point, he thought I had buried the dead woman's body on property I owned in Vermont. Once when I was there, tending the garden, I looked up and saw a small plane flying low overhead. An aerial photo of the house later appeared in my mailbox back in Brookline, without comment.

The surreal quality of Penn's dialogue with the facts is captured by the matter of the phone number. At one time in Cambridge I had a phone number with the last four digits 6266. From this Penn, using some sort of gematria, extracted enormous meaning. But what does a number assigned by the phone company say about the person it was given to? Many of the other details Penn has used to launch his voyages of conjecture are equally beyond my control, like my birthday and my mother's name. There was also some fuss made about the fact that I was on the freshman rifle team in college. (At least two of the Zodiac murders were committed with a handgun at point-blank range, so rifle marksmanship doesn't seem germane, but go figure.)

By contrast, things I have intentionally crafted have been mostly ignored by the Penn-Zodiac crowd. Although I write for a living, only my dissertation (tables and tables of numbers!) and two other works have attracted their interest. One of them was a paper that used a hypothetical carjacking to illustrate something about persuasion; the other was a satirical op-ed I wrote for the *San Francisco Chronicle* that used Canadian wolf relocation to make fun of xenophobia. I thought it was a pretty minor effort, but it echoed through the recesses of the Internet for years. If only I could get fellow scholars to pay half as much attention to my serious work.

I wish I could say I've learned a lot from this disagreeable experience, but about all I've gleaned is how hard the subconscious mind tries to make sense of irrational circumstances. "Is this what amnesia is like?" I found myself idly thinking during the early days of Penn's obsession. "I know I didn't kill any of those people. But maybe I met them and was rude or unkind to them in some way? Or maybe this has to do with not grading my students' work carefully enough, or not having enough footnotes in my thesis ..."

I have a recurrent mental image of Penn (whom, to my knowledge, I've never met). He's seated cross-legged on the floor surrounded by an enormous collection of Lego pieces, each one a fact either about me or about the Zodiac/Webster crimes. Hour after hour, day after day, he assembles an amazing structure, but the pieces from the two batches don't fit together properly, so he relabels something that looks useful, or whittles a new piece from scratch into the shape he needs. Everyone should have a hobby, I guess, and the world has survived a wide variety of philosophies about the relationship between belief and evidence. But all in all, I wish he had gone looking for a race-car driver with the initials PDQ. WM

Michael O'Hare teaches public policy analysis at the University of California at Berkeley, specializing in environmental and arts policy with forays into public management.

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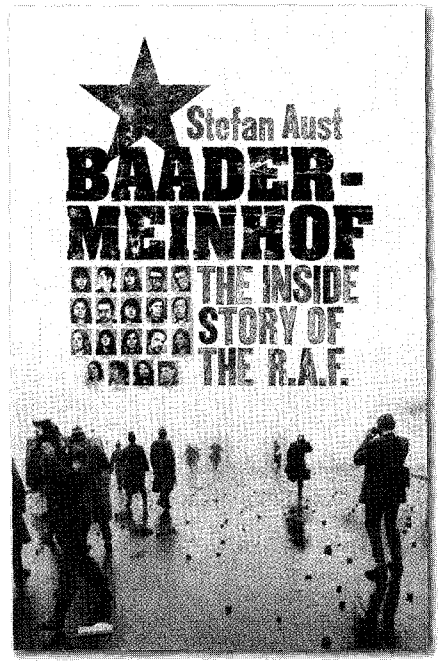
Death in Stuttgart

Revisiting Germany's 1970s war on terror.

By Paul Hockenos



Baader-Meinhof: The Inside Story of the R.A.F.
by Stefan Aust, trans. Anthea Bell
Oxford University Press, 456 pp.

The Baader Meinhof Complex
Uli Edel, director
Vitagraph Films, 2008

For forty-four harrowing days in the fall of 1977, which came to be known as the German Autumn, the urban guerrillas of the Red Army Faction (RAF) held captive a major German industrialist, Hanns-Martin Schleyer, demanding in exchange for him the release of their imprisoned leadership. The West German government launched an obsessive manhunt that shut down train and bus terminals, posted police checkpoints on roads across the country, and tapped the phones of thousands of leftists. The ordeal ended with the spectacular liberation of a hijacked jumbo jet, the collective suicide of the RAF prisoners, and the cold-blooded murder of the kidnapped businessman.

The images associated with Germany's left-wing terrorism of the 1970s remain vivid for anyone who lived through it: Chancellor Helmut Schmidt's grave television addresses to the nation; the "Wanted" handbills with blurry black-and-white photos of the fugitives, among them the group's leaders, Ulrike Meinhof, Andreas Baader, and Gudrun Ensslin; and the eerie maximum-security Stammheim Prison near Stuttgart, the seventh floor of which held the political prisoners. The violence of the urban guerrillas rattled the state and terrified ordinary Germans. It is no exaggeration to say that the trauma experienced by many West Germans during that time can be likened in intensity to that endured by Americans in the aftermath of the 9/11 attacks. But most of the meaningful parallels between the two periods stop there.

Three decades later, this grim chapter in the republic's history still remains remarkably present in the culture and consciousness of contemporary Germany. Marking the thirtieth anniversary of the German Autumn a couple of years ago, some of the country's magazines reprinted (yet again) the images now seared into the memory of the Federal Republic: Baader in leather jacket and sunglasses pinned to the asphalt by police, Ensslin hanged in her cell, and an array of smashed, bullet-riddled BMWs with sheet-covered corpses lying next to them. This epoch and its most spectacular episodes have generated a regular stream of cultural material, including feature and documentary films, novels, exhibitions, plays, and even techno T-shirts sporting the RAF logo—a machine gun set against a red star. In addition, as the last of the imprisoned ex-guerrillas came up for parole recently, there was a fierce discussion about the terms of their release, with relatives of victims and former guerrillas weighing in on talk shows.

Among Germany's many chronicles of its homegrown terrorists, Stefan Aust's 1985 600-page *Baader-Meinhof Komplex* stands out as the classic, although not necessarily the best, study. There isn't a single left-leaning German who doesn't have a copy on his or her bookshelf. The film version came out in 2008, studded with Germany's flashiest stars. Inexplicably, it was nominated for an Oscar, in the category of best foreign-language film.

In the world of German media, Aust isn't just anybody. He is one of the country's premier alpha journalists and was until recently the editor of the country's

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leading newsweekly, *Der Spiegel*. While there, he had half a dozen staffers working full-time following the few remaining threads that could answer the few remaining questions about the dramatic showdown between the state and the urban revolutionaries. His RAF files are said to fill sixty meters of shelf space.

The 2008 reworked translation of Aust's book, *Baader-Meinhof: The Inside Story of the R.A.F.*, provides English readers with the German Autumn story, updated with Aust's latest findings: evidence that Germany's secret services had the RAF prisoners in the Stammheim cells under full surveillance and thus almost certainly knew about their suicide pact—and did nothing to stop them. It includes fascinating material on the collaboration between the authorities of Communist East Germany and the RAF militants (a collusion that is mutually indicting), as well as additional verification that the RAF leadership deliberately and cynically staged their own deaths as murders in order to spawn new generations of like-minded revolutionaries to fight the fascist police state. (They were successful in this goal, causing yet more innocents to die in the name of revenge and First World revolution.)

Aust himself is part of the RAF story, something that would justifiably raise the eyebrow of any historian worth his salt. Aust was a teenager in the late 1960s, and fell in with the staff of the radical monthly *konkret*, the chief editor of which was none other than Ulrike Meinhof. (In the film, Aust's character appears in the background every now and again, a dorky kid with oversize eyeglasses and an ill-fitting denim jacket.) He was involved in one of the oft-told stories of the radical '70s, having traveled to Sicily to intercept Meinhof's twin daughters, whom she had abandoned for her life as a Marxist revolutionary. She was in the process of sending the girls to a Palestinian orphanage run by Fatah, where they, too, presumably, would become revolutionaries. As payback for foiling the plan, the RAF plotted to kill Aust. The plot was unsuccessful, but one can reasonably assume that such an experience, among others during that time and beyond, colored Aust's interpretation of the events and their characters. It is above all his characterization of Meinhof as a hopelessly naive girl, overpowered by the domineering, misogynistic Baader, that riles many of his co-experts. (Few, however, object to his portrayal of Baader, about whom the French philosopher Jean-Paul Sartre declared after meeting him in prison, "That guy is such an asshole!")

The West German terrorism of the 1970s clearly displays parallels with that of today's fundamentalist Islam. There is the black-and-white perception of the societies they target, of friends and foes, of good and evil. But more separates Baader-Meinhof from al-Qaeda than links them.

The West German terrorism of the 1970s clearly displays parallels with that of today's fundamentalist Islam. There are, of course, similarities in the nature of the revolutionary zeal and callous revolutionary logic. There is the black-and-white perception of the societies they target, of friends and foes, of good and evil. In the same way that the RAF hoped to jar the proletariat from its slumber, Islamic fundamentalists aim to radicalize and mobilize misguided mainstream Muslims. One could argue that, like the RAF's goal to "bring the struggle of the Third World to the First World," the aim of Osama bin Laden and Co. was to bring the holy war from Afghanistan to the rest of the world.

But most of this could be said about any revolutionary movement. In fact, I think that more separates these two movements than links them—first and foremost their completely different historical backgrounds. One is rooted in the specific historical circumstances of postwar Europe and the protest movements of the 1960s, the other in obscure strains of Islam that had long floated around the Arab world. One is Enlightenment based, the other explicitly religious. The German radicals targeted an economic elite in one country, while the Islamists battle whole civilizations. In contrast to the RAF, which drew its numbers from a contingent of perhaps several thousand sympathizers in West Germany, Islamic fundamentalism is supranational and spans continents, with millions of potential and actual sympathizers.

Can anything be learned from the German experience that is useful today? Perhaps so: the German state conducted its own "war on terror" in the 1970s, cracking down on the entire left-wing movement, raiding harmless Saturday-night parties, and putting many thousands of innocent people under surveillance. Those who experienced this pressure describe it as overwhelming—filmmaker Margarita von Trotta dubbed it "the leaden time." It created extreme paranoia on the left, which had the effect of radicalizing the scene and lending credibility to the RAF's claims of the republic being a police state. Likewise, many would argue, the Bush administration's war on terror fueled extremism in the Islamic world, alienating rather than winning over the West's skeptics.

My problems with the Aust book, as well as with the film, are significant. For one, both versions of the story lack basic, requisite background information, particularly for the non-German audience. Aust's political thriller, told in crime noir deadpan, skates over the archconservative postwar decade in which the RAF militants grew

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up. It was a time before West Germany had begun to come to grips with the Nazi past, and former Nazi Party members still remained in high posts in the federal government, the judiciary, and, not least, the school systems. Although the historical chronology doesn't excuse the militants' misguided diagnosis of the Federal Republic as a post-fascist state, it does explain the process that led them to these conclusions.

Aust also neglects to flesh out the 1960s student movement—*die Studentenbewegung*—which grew out of the disarmament campaigns of the '50s and early '60s. German students began to organize to liberalize the educational system, purge academia of old Nazis, and explore the roots of Third World poverty. Their inspiration was the U.S. civil rights campaign, the Berkeley Free Speech Movement, and the earliest Marches on Washington. It was the brutality that the police inflicted on the student protesters that radicalized the movement, which originally was not violent, revolutionary, or ultraleftist.

Aust's underlying thesis is that the armed struggle of the '70s was the inevitable, logical outgrowth of the student movement. It is undeniable that the RAF emerged from the ruins of the student movement, taking its most radical ideas and acting upon them. But, I argue, they did this in a way the students had never envisioned. Of the tens of thousands of young Germans who marched against the war in Vietnam and in favor of university reform, only several hundred, at most, interpreted those ideas in a way that ended in terrorism. Particularly unfair is Aust's depiction of the charismatic student leader Rudi Dutschke, an arresting figure little known outside of Germany. It is sad that the wider world's introduction to him through the film portrays him as a demonic advocate of violence *über alles* and as the spiritual father of the RAF.

When the student movement imploded in 1969, the vast majority of its members—most of whom never embraced revolutionary politics in the first place—either threw in their lot with Willy Brandt's reinvigorated Social Democrats or struck out on their own to organize grassroots civic projects that eventually morphed into the powerful women's and environmental campaigns. These are the rightful heirs of 1960s German activism, not the confused handful of ultraleftists who became the RAF. And it was these mass movements—of which the 1980s Green Party was one product—that had an incomparably greater impact on the political culture of modern Germany. But that's another story—and probably one not sensational enough to be nominated for an Oscar. WM

Paul Hockenos is a writer living in Berlin. His most recent book is *Joschka Fischer and the Making of the Berlin Republic: An Alternative History of Postwar Germany.*

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The Invisible Hand of God

God Is Back: How the Global Revival of Faith Is Changing the World
by John Micklethwait and Adrian Wooldridge
Penguin Press, 416 pp.

Does faith flourish in a free market?

By Paul Baumann

In the beginning, preaches *God Is Back: How the Global Revival of Faith Is Changing the World*, God created Adam. No, not the dim-witted Adam with the nagging girlfriend and forbidden-fruit problem, but Adam Smith, the enterprising fellow with the thick burr, the invisible hand, and all those economic maxims drawn from an eighteenth-century pin factory. And God, it seems, saw that Adam Smith was very good indeed. Soon industrialists begat free traders, free traders begat robber barons, robber barons begat captains of industry, captains of industry begat high financiers, high financiers begat masters of the universe, and masters of the universe begat i-banking, securitized mortgages, and credit default swaps, and now only God and Tim Geithner know what's next. Along the way, God also created the *Economist* to proclaim the truth and efficacy of all this. Yes, the *Economist*—where John Micklethwait and Adrian Wooldridge ply their trade—dutifully cautions that even free markets can be brought low by original sin. But that is to be expected in a world in which even God himself must cope with "market fluctuation." Today, after having His stock shorted for a century or three, God's business has revamped its marketing strategy and is repositioned with an eye for growth.

Or at least that is what *God Is Back* claims. Where once it was widely assumed that modernity and its handmaiden "secularization" would kill off religion, the reports of God's death turn out to have been greatly exaggerated. Indeed, Micklethwait and Wooldridge assure us, "the very things that were supposed to destroy religion—democracy and markets, technology and reason—are apparently combining to make it stronger." Europe was wrong, and America right. Irreligion in Europe is the anomaly, and the "hot religion" (namely Evangelical Protestantism) of the United States is the future. "American-style religion" is very much here to stay, and on the whole that is a good thing—especially for business.

God Is Back is an enormously ambitious book whose authors pound its argument home with the persistence of the proverbial used-car salesmen. Given their devotion to classical economics, it is no surprise to learn from them that God's reemergence as a sound investment is due in large part to the Almighty's embrace of eternal truths enunciated not in the Sermon on the Mount but in *The Wealth of Nations*. "Competition and choice," not "hierarchy and tradition," are what people want and what trade demands, in the soul-saving business as elsewhere. Despite its globetrotting subtitle, *God Is Back* focuses primarily (and worshipfully) on the United States. In separating church and state while protecting the free exercise of religion, the United States has established the ideal setting for religion, democracy, and capitalism to flourish. And now—praise the Lord!—"the world is moving in the American direction, where religion and modernity happily coexist, rather than in the European direction, where secularization marginalizes religion." Micklethwait and Wooldridge use brief stops in China, South America, India, and across the Islamic world to demonstrate the influence and practicality of "American-style religion" for people struggling with the creative destruction brought on by economic globalization.

But what exactly *is* American-style religion? The whirlwind historical survey served up here gives cameo roles to the usual suspects: Jonathan Edwards, Cotton Mather, the Founding Fathers, Tocqueville, William Jennings Bryan, Billy Graham, JFK, MLK, Mel

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Gibson, etc. But the story as told by Micklethwait and Wooldridge emphasizes a cultural dynamic and ideology—namely, competitive free enterprise—over any individual contribution. As the authors rightly note, because religion was divorced from the state in America, religious leaders and communities had to fend for themselves, building their own institutions while competing strenuously for believers with other religious groups. This separation of church and state is akin to the rules of the free market, which may explain why religion has flourished in America in contrast to other developed nations where the state has had a much heavier hand in the support of religion. This, in turn, demanded greater innovation and an emphasis on what might be called customer service.

God Is Back traces this church model to the revivals or "awakenings" of the nineteenth century as well as the pragmatic outreach and organization of the Methodist Church, once the nation's largest Protestant denomination. We follow Evangelical Protestantism's ups and downs like a stock price, from Prohibition and the Scopes trial to George W. Bush and right up to the current moment. (The crestfallen reaction of conservative evangelicals and Catholics to Barack Obama's election gets little attention, however.) Faced with the challenge of marketing faith in a postindustrial society, contemporary American "pastorpreneurs" have turned to sophisticated business models for inspiration and instruction. As *God Is Back* notes, Willow Creek Community Church, the famed Illinois megachurch, boasts two MBAs on its large administrative staff, and an operation that caters to virtually all the needs of its members, from food courts to addiction counseling. "Willow Creek," the authors write, "is based on the same principle as all successful businesses: putting the customer first." It is a principle they see being followed by Evangelical, Pentecostal, and even some Catholic churches around the world.

Doubtless there is some truth in the observation that "competition and choice" are good for religion, as the growth of Evangelical Christianity in Latin America and Africa and Catholicism in Africa and Asia demonstrates. But religion is a dauntingly complex historical, social, and intellectual phenomenon, and, as lawyers say, Micklethwait and Wooldridge's thesis proves too much. How, for example, to fit the success of the American Catholic Church into their model? Yes, the bishops, priests, and nuns who built the remarkable array of Catholic institutions, beginning in the second half of the nineteenth century, were entrepreneurial. But they hardly dispensed with "hierarchy and tradition" or committed themselves to competition and choice. Nor was there much real "competition for souls" between the Catholic Church and Protestantism: for the most part, you were born or married into the Catholic Church and stayed there. This was especially true for immigrants who found a refuge in the Church from an otherwise unfamiliar and often hostile environment. In a real sense, then, the Church operated a monopoly in one corner of the religious market. Contrary to Micklethwait and Wooldridge's theory, it thrived without the goad of competition. Retreating into a subculture of schools, hospitals, orphanages, neighborhoods, and rigorous ritual observance, Catholics *protected* themselves from precisely the sort of free market *God Is Back* celebrates as the peculiar genius of American religiosity.

The separation of church and state in America is akin to the rules of the free market, demanding greater innovation and an emphasis on what might be called customer service than in other developed nations where the state has a heavier hand.

The book's take on Catholicism and American political life seems confused. To describe John F. Kennedy's famous 1960 speech to Protestant ministers in Houston as "the highpoint of bland civic religion" is anachronistic at best, and to say that Kennedy told his audience that "his Roman Catholicism was a strictly private affair" is downright misleading. What he really said was that he could not imagine a situation in which his Catholic faith or the teachings of his Church would prevent him from carrying out his responsibilities as president; and, if such a situation ever arose, Kennedy promised, he would resign from office. There was nothing "bland" about this effort to address the legitimate, if exaggerated, concerns Protestants had about the Catholic Church and democracy. In a similarly convoluted reading of history, *God Is Back* credits the late Rev. Richard John Neuhaus with ending a Catholic "nervousness about involvement in the public square" that Kennedy allegedly epitomized. This is laughably off target, since the emergence of Neuhaus and other Catholic neocons came in direct response to the energetic involvement in the public square of the American bishops, with their influential statements on economic justice and nuclear disarmament during the 1980s.

God Is Back proves not much more convincing in its canned history of the 1960s. Singing from the neoconservative hymnal, Micklethwait and Wooldridge bemoan "liberal overreach," including Supreme Court rulings banning prayer and Bible reading in public schools, as well as the left's excesses regarding race, the Vietnam War protests, violent crime, the sexual revolution, and the legalization of abortion. But surely the crisis of authority was more basic and profound than this suggests. What truly almost tore the country apart was widespread violent resistance to desegregation; the assassinations of a president, his brother, and the most important religious figure in U.S. history; *and* a decade-long undeclared war that killed 55,000 Americans and millions of Vietnamese. In this context, the threat posed to religious Americans by hippies, feminists, protestors, or pornographers seems rather tame.

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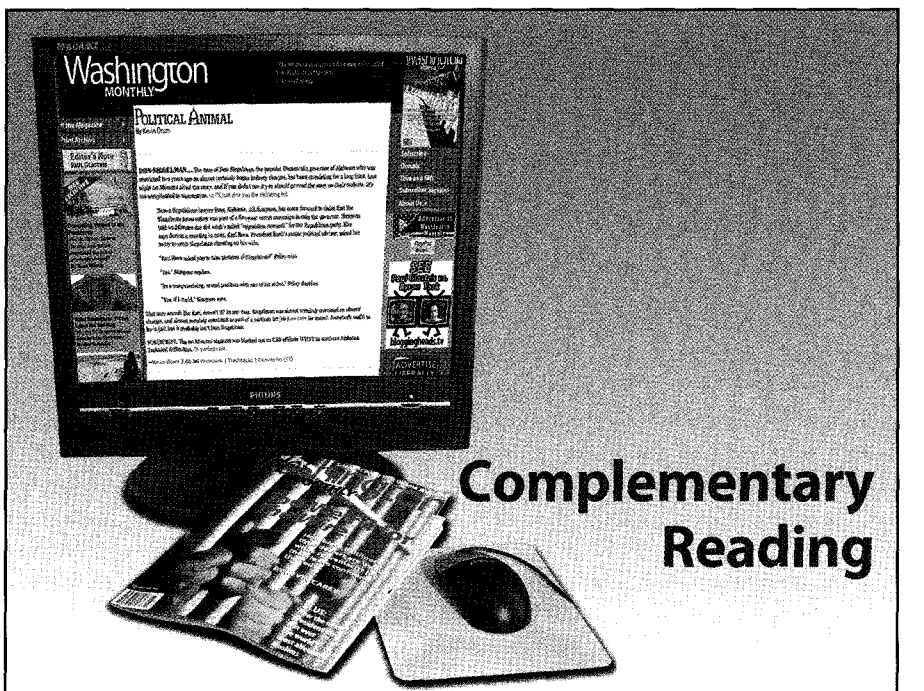
God Is Back offers nuanced observations about both the dangers and the opportunities the new global religious situation presents. But is it really new? Yes, in a sense God is back, at least on the radar screens of certain Western elites. For most people across the globe, of course, God never left. It is hardly surprising, then, that resolving the world's most neuralgic conflicts, such as the Israeli-Palestinian dispute, the war in Iraq, and the threat posed by al-Qaeda, will require the participation of religious leaders. Ironically, given the significance of religion in American politics, this is something U.S. foreign policy has long neglected, and *God Is Back* rightly urges that this omission be corrected.

This is a difficult time to write an account of contemporary religion and politics. *God Is Back* was written before the full extent of the global financial crisis was evident, and its confident assertions about the inevitability and beneficence of American-led globalization—and the political and military hegemony of the United States—now seem cavalier. Its speculations about the "consolations" of religion are little more than tautologies. Religion is about meaning, therefore people find meaning in religion. But what that meaning *is* remains a mystery. To say that religion is about "the quest for community in an increasingly atomized world, the desire to counterbalance choice with a sense of moral certainty," while true at some level, doesn't tell us *what* meaning people derive from community or moral certainty. Is it still meaningful if it is false?

To coin a phrase, such bromides are the height of bland civic religion. In the end, it is hard to imagine any serious religious believer, or any curious agnostic, for that matter, not being irked by a theory that requires a neologism as cringe-making as "pastorpreneur," or by a book whose bottom line informs us that American-style Evangelical religion has finally solved the age-old problem of whether one can serve both God and Mammon. Surely there are more things in heaven and earth than are dreamt of in this philosophy. WM

Paul Baumann is the editor of *Commonweal*.



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Swindlers List

Before Bernie Madoff, there was Ivar Kreuger.

By Doron Taussig

The Match King: Ivar Kreuger, the Financial Genius Behind a Century of Wall Street Scandals

by Frank Partnoy
PublicAffairs, 288 pp.

Did you have a chance to read Bernie Madoff's plea agreement? I found it fascinating. The thing is clearly heavily lawyered, and probably PR-professionalized. Still, read this nugget, and bear in mind that it's coming from someone who swindled *Elie Wiesel*:

> *I am actually grateful for this first opportunity to speak publicly about my crimes, for which I am so deeply sorry and ashamed. As I engaged in my fraud, I knew what I was doing was wrong, indeed criminal. When I began the Ponzi scheme I believed it would end shortly and I would be able to extricate myself and my clients from the scheme. However, this proved difficult, and ultimately impossible, and as the years went by I realized that my arrest and this day would inevitably come.*

What are we supposed to do with this? Do we try to take it seriously? Because really, given everything that's happened, how can we? I feel like I can't find an appropriate context for engaging with it. Just reading it feels awkward, like riding the bus home with someone who's just mugged you.

It's hard to get your head around greed like Madoff's. But it's worth trying, if only to better spot future swindlers. A good way to begin is to take a closer look at previous ones.

One such individual was Ivar Kreuger. A Swedish industrialist in the 1920s whose core business was matches—a ubiquitous product at the time, used for heating, cooking, lighting, and smoking—Kreuger was also an international financier, and such a gifted one that his businesses survived the 1929 stock market crash. Eventually, though, the collapse of global finance caught up to him, and when it did, some troublesome details about his practices came to light. Word spread that he was a fraud. And yet, he was, somewhat oddly, completely forgotten.

Enter Frank Partnoy, once a banker at Morgan Stanley, now a professor of law and a chronicler of Wall Street greed and malfeasance. Partnoy's mission in his new book, *The Match King: Ivar Kreuger, the Financial Genius Behind a Century of Wall Street Scandals*, is to revive Kreuger, and to reconsider him—to assess how much of the man's business was legitimate, and how he pulled off the illegitimate parts. Let's stipulate up front that this isn't the easiest book to read: Partnoy's attempts to humanize his subject, such as vague allusions to Kreuger's relationship with Greta Garbo, feel empty, and—more importantly—the financial specifics aren't particularly accessible. Partnoy is an expert on Wall Street matters, and either he's writing for his peers or he doesn't remember how much the layman doesn't know. Still, there's a lot to pique the interest here, not least the unjustly forgotten subject.

Ivar Kreuger was a *huge* deal in his day. After making enough money to purchase a few match factories, he built up his company, Swedish Match, to control the market in his home country. Then he hit on two ideas that captured the zeitgeist of his time perfectly. The first was to lend money to European governments at low interest rates, in exchange for the rights to monopolies on match sales in their countries. (In post–World War I Europe, governments were hard up, and many didn't share America's aversion to monopolies.) The second idea was to finance his loans with American capital. America, of course, was roaring: investors were exuberant to the point of, um, irrationality. "There

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were more day traders per capita during the early 1920s than at any other time in history," Partnoy writes.

It took a good deal of business savvy for Kreuger to persuade various power brokers to work with him. Partnoy recalls how the tycoon memorized tons of factoids about the German luxury liner *Berengaria* before boarding it for a trip to the U.S., so that by the time he docked Kreuger's fellow passengers would be buzzing about his intellectual prowess. I also got a kick out of the descriptions of Kreuger's powerful but, it seems to me, somewhat antiquated speaking style, which was highlighted by long pauses that could last several minutes. These weighty silences helped to win over a respected American investment bank called Lee, Higginson & Co., and Kreuger was off and running. He began by securing monopoly deals, first in Poland and eventually in countries from Ecuador to Latvia. Investors were not disappointed: Kreuger paid them huge dividends, at times as high as 25 percent.

Without his investors' knowledge, Kreuger set up subsidiaries in numerous countries, moved money between them freely, and played fast and loose with his balance sheets. No one looked too closely at these maneuverings; whenever someone had reason to question him, Kreuger distracted them by paying out bigger dividends. His American creditors did assign an auditor to him, but Kreuger essentially bought the man off with fancy vacations.

Partnoy says there's scant evidence that Kreuger did anything fraudulent or illegal throughout much of his career. His match business was real, and profitable. It just wasn't always profitable *enough* to pay the dividends he promised, and Kreuger had to keep borrowing to stay above water. In order to justify that borrowing, he had to keep striking deals with new countries—that is, he had to keep growing.

Kreuger understood that markets are psychological, and that, if he could inspire confidence, he could stay afloat. It was in this way that he initially survived the great crash of 1929—he simply acted as though it didn't affect him, and kept paying dividends. Eventually, though, his funds dried up. He went to Italy, hoping to make a Hail Mary monopoly deal that would resurrect his business; it's not known what was said in his meetings there, but when he returned home, he went to a lithographer and forged forty-two Italian treasury notes. Presumably he planned to use these to persuade lenders or auditors that he had a deal with Italy, and, in fact, one of his partners offered them as collateral to some Swedish banks. As a condition of the loans, however, the bankers wanted to go over Kreuger's finances carefully. Before long, authorities were asking questions about the forged notes. And that, more than anything else, sealed Kreuger's reputation as a fraud. In 1932, Kreuger took his own life by shooting himself in the heart.

Ivar Kreuger's match business was real, and profitable. It just wasn't always profitable enough, *and he had to keep borrowing to stay above water.*

On the back cover of *The Match King*, we are promised a "prescient parable." We're left to draw the parallels between Kreuger and today's financial villains on our own. But they're not that hard to find. The first has to do with the individual psychology of these fraudulent financiers. We like to think that cheaters set out to cheat, and never intended to play the same game as the rest of us. But with Kreuger, we see that's not true: he set out to run a legitimate business, and it wasn't until things got rocky that his predisposition toward slipperiness took over. As far as character flaws go, weakness, not malice, led him to his fraud. Remember when Madoff said he believed his scheme would end shortly? If Kreuger is any guide, that may have been true. This doesn't absolve him, of course. But it does help us understand where the trouble started.

The problem continues when a fraud is exacerbated by systematic neglect. In Kreuger's case, Partnoy writes, "Overeager investors, sloppy auditors, and pushover directors bear much of the blame ... If they had simply demanded to know how Ivar could pay 25 percent dividends while receiving 8 percent interest on government loans, they might have generated enough skepticism to dampen the meteoric rise in the prices of his securities. But no one wanted to question Ivar on the way up." The parallels to Madoff—and, indeed, to the broader collapse of the financial markets—are easy to see. The returns Madoff's firm offered, though not stratospheric, were suspiciously consistent, year after year, and he was famously vague about his investment strategy. And yet his investors, with few exceptions, remained credulous to the end.

Which brings us to the final lesson we might learn from Kreuger's story. Partnoy writes, "The lesson of Ivar Kreuger is not that his businesses were illegal. It is that they were alegal." I'm not sure I like this formulation. I looked up "alegal" in the dictionary, and it turns out it's not a word. That may be because the concept isn't that valuable. Sure, there are gray areas in the law. But most of the things Kreuger did to get himself into a mess were perfectly *legal*—and unregulated. Indeed, as Partnoy points out, the Securities Exchange Act and the Securities Exchange Commission both came to be in direct response to the collapse of Ivar's companies.

Here, of course, the parallels with Madoff end: the dude broke the law. But laws that aren't enforced aren't much good, and as we now know, the SEC—especially under its deregulation-minded former chairman, Christopher Cox—failed to uncover Madoff's schemes despite repeated warnings.

Human nature being what it is, we probably ought to accept that there will always be brilliant con artists like Ivar Kreuger and Bernie Madoff, who are willing and able to bilk gullible investors out of their life savings. What we don't have to accept is a federal government willing to let them get away with it. WM

Doron Taussig is the news editor at the *Philadelphia City Paper.*

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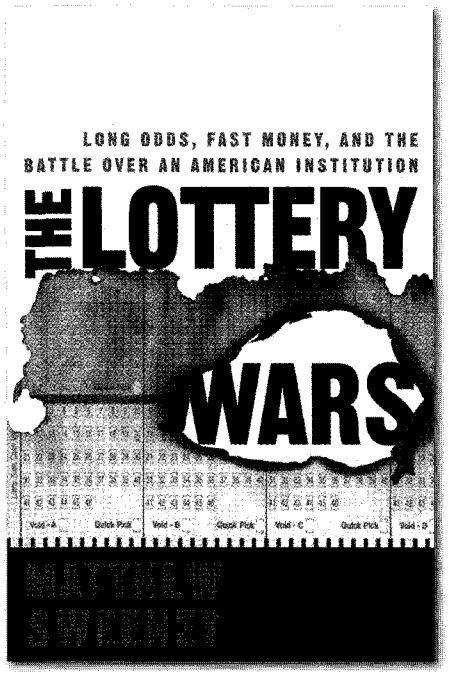
Whole Lotto Love

Why Americans play Powerball.

By Justin Peters



The Lottery Wars: Long Odds, Fast Money, and the Battle Over an American Institution

by Matthew Sweeney
Bloomsbury, 304 pp.

The good songs are never the ones that get stuck in your head. It's always the stuff that you'd rather forget, like playground chants, or the Macarena. Take, for example, the Illinois Lottery jingle that has been playing in my brain for the past fifteen years. The tune was memorable both for its infectious samba beat and for using the word *lotto* as a verb. *To lotto* didn't just mean to win—it meant to win in a spectacularly public, sybaritic fashion. "Somebody's going to lotto, dancing to dreams come true," the singer promised. "Somebody's going to lotto—might as well be you."

I kept thinking of this jingle, and its promise that only six little numbers stood between you and "the good life," as I read *The Lottery Wars: Long Odds, Fast Money, and the Battle Over an American Institution*, Matthew Sweeney's omnibus history of the lottery in America. Today, lotteries are a multibillion-dollar industry, operational in forty-two states and the District of Columbia, encompassing everything from immense Powerball jackpots to low-stakes scratch games with names like Cash Blast and $1,000 Jumbo Bucks. Although Sweeney's book never quite lives up to its advance billing (the "wars" amount to little more than disputes that could erupt over any contentious policy matter), it is nevertheless a well-researched account of an all-American pastime.

The first lotteries were essentially raffles, sponsored by states, or towns, or schools—any civic institution facing a budget shortfall. The games were immensely popular, which makes sense—Americans have never been averse to gambling on long-shot propositions. Advocating for the formation of a New Jersey lottery in 1793, Alexander Hamilton was clearly talking about the speculative spirit that birthed the nation when he wrote, "Hope is apt to supply the place of probability—and the Imagination to be struck with glittering though precarious prospects."

For a time, the same imagination that birthed America paid for its construction. Lotteries helped the Virginia Company support its struggling colony in Jamestown back in the seventeenth century. Lottery profits benefited the Continental Army during the Revolutionary War and contributed to the construction of countless roads, schools, and other public works after independence. Even Harvard and Yale owe their provenance in part to the American passion for gambling.

But all these social benefits always rubbed up against the uneasy sense that lotteries were instruments of ruination, antithetical to the idea of America as a virtuous city on a hill, fueled by hard work and early bedtimes. "Lotteries have always been accused of supporting immorality, corruption, mismanagement, and greed," writes Sweeney. There is truth to this, and yet there is a thin line between those failings and such cherished national virtues as ambition and enterprise. The lottery appealed to those people who, having failed to secure the American dream through effort, figured they might as well try to achieve it by chance.

In the early nineteenth century, writes Sweeney, lottery merchants were as ubiquitous as modern-day Starbucks stores. By 1826, Rhode Island residents spent $1,350,000 per year on lottery tickets; by the early 1830s, Philadelphians dropped about $30,000 per week on their lottery fix—almost $800,000 per week in today's money. As diversion veered into addiction, moralists mustered their righteousness, and, one by one, most states began to shut their lotteries down. By 1894, legally sanctioned lotteries were history.

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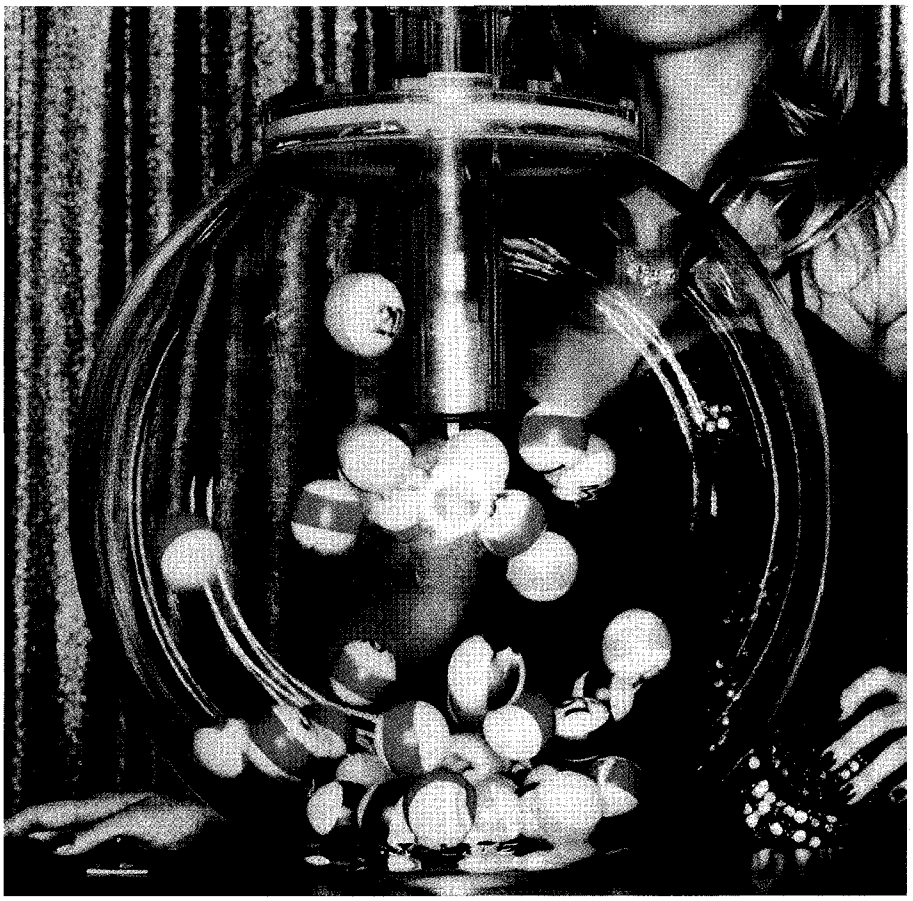

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For about seventy years thereafter, the lottery was left to unscrupulous outfits like the Mafia, which fed urban appetites for low-stakes gambling with illegal numbers rackets. These games thrived, despite repeated attempts to shut them down. In the 1960s, in part prompted by a spate of budget crises, some states decided that the lotteries weren't so bad after all. In 1964, New Hampshire debuted the first new state lottery in more than one hundred years, promoting the game's social benefits, such as its potential as a funding source for the state's cash-strapped school system. As a vehicle for promoting social good, the lottery was a resounding failure.

Predictably, people cared less about social benefits and more about winning a lot of money without much effort—the idea that "If I just scratch a little fucking number, I might have five hundred bucks in my pockets," as one participant put it. It's a seductive notion—that you can become rich without education, or talent, or connections, or looks. All the game requires is the wherewithal to keep buying tickets, and the blind, perhaps misplaced faith that one day your luck will change. The lottery is the secular guarantor of hope for those who would otherwise have none, and once states began selling the prospect of easy money, the modern lottery began to thrive.

Sweeney does a good job recounting the lottery's history, but his narrative loses momentum when it reaches the present day. Absent a logical chronology or theme to guide the organization of this section, the book devolves into a loose collection of anecdotes. Many of these are interesting, but there's no unifying story to connect all the threads. *The Lottery Wars* is a much better title than *Stuff I Learned About the Lottery*, but the latter may be more accurate.

By way of compensation, Sweeney lards his pages with profiles of lottery players, but this doesn't quite work, because few are richly drawn enough to give a true sense of the lottery's casualties. Instead, we get an interchangeable parade of compulsive gamblers. Only one—Curtis Sharp, who won the New York lottery in 1982 and then lost all the money—is a real character rather than an illustrative anecdote. Dubbed the "Five-Million-Dollar Man," the gregarious Sharp was the first bona fide lotto celebrity, appearing in commercials and hobnobbing with figures like Lou Rawls and Dick Gregory. His fame lasted longer than his money did. There's a great bit when Sharp, after losing nearly all of his winnings through riotous living, bad investments, and compulsive generosity, announces that he's investing his last dollar in some quack self-charging battery that ostensibly will make millions once it's sold to the auto companies. "I didn't know, I just took a chance. I didn't know if it was good or not," he says, stumbling for words to justify his faith in an obvious hoax. "This is just, I don't know, something just told me to get into this."

It's a wrenching moment, but then Sweeney backs away, and never again approaches the same depth of feeling. This is a big mistake, and it ultimately dooms the book. The lottery is most interesting not because of the ways in which it can be played, or the circumstances surrounding its legislative adoption, or the technical feats behind its computerization. It is interesting because of the people who play it, and what their willful self-delusion tells us about the mental bargains we all make in order to cope with a brutal world.

The 1980s alternative-rock band Camper Van Beethoven has a song called "When I Win the Lottery." The narrator is a ne'er-do-well, the sort of person who inspires people to cross the street when they see him coming; the song mostly consists of him talking about his wretched life, and then, as if stung, quickly changing the subject and reciting all the things he'll do when he finally wins the lottery. He'll buy French perfume for all of his neighbors, and "donate half my money to the city so they have to name a street or a school or a park after me." He's experienced enough to know that it'll never happen—and yet you get the feeling that without these dreams to sustain him, he would disappear. Sometimes, false hope is the only hope there is. After all, *somebody's* gonna lotto. WM

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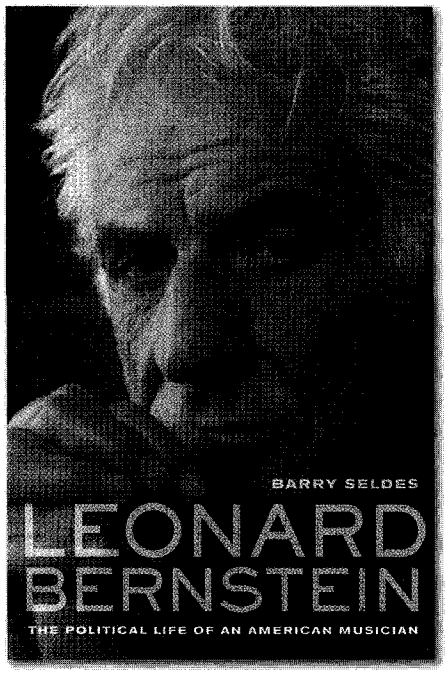
Radical Streak

Why Leonard Bernstein's politics can't explain his best music.

By Michael O'Donnell



Leonard Bernstein: The Political Life of an American Musician
by Barry Seldes
University of California Press, 269 pp.

Leonard Bernstein took a lot of flak for his antics on the podium. Patrons of the New York Philharmonic at mid-century were either delighted or appalled to catch a glimpse of the "Lenny leap," an uncouth maneuver that found the enthusiastic maestro a good foot in the air before a momentous downbeat. A newspaper critic complained that when Bernstein conducted, he spent most of his time not keeping time or cueing musicians but "fencing, hula-dancing and calling upon the heavens to witness his agonies." Once, when he was rehearsing the finale of Gustav Mahler's Second Symphony, which calls for a pianissimo so soft that it fades into nothingness, the Tanglewood chorus kept singing a little too loudly. Bernstein, who was Mahler's greatest champion and had to have it just right, lay down on the podium like some hippie chained to a tree and refused to budge until they sang it softer. Here he was, the great icon of twentieth-century American classical music, taking it to the streets, as it were, sixties-style. The year was 1953.

If anyone were likely to hold a conduct-in, it was Bernstein, a civil rights marcher, Zionist, gay rights activist, no-nukes partisan, antifascist, sexual liberationist, cowboy-boot wearer, and inveterate attender of fund-raisers, speaker at rallies, and signer of petitions. A new book discussing his political achievements and indignities has just arrived: Barry Seldes's *Leonard Bernstein: The Political Life of an American Musician*. Seldes believes that politics, rather than Judaism, American identity, or aesthetics, was the animating force of Bernstein's creative life. Regardless of the merits of this claim (about which more directly), it must be said that such a work could start an unfortunate trend. When we are subjected to books on the political activism of Susan Sarandon, Tim Robbins, and George Clooney—*Oceans of Third-World Debt*, maybe?—we must first remember, before joining hands and jumping off bridges, to write Seldes a strongly worded letter.

Long before Sean Penn threw his arm around Hugo Chávez, Bernstein was engaged in radical chic. Indeed, one could argue that he was its modern avatar: the writer Tom Wolfe coined the term in a scorching *New York* magazine article about a Black Panther fundraiser held at Bernstein's Park Avenue apartment in 1970. There the maestro was unfortunately overheard by Wolfe and several other reporters to reply to "Field Marshal" Donald Cox's injunction to "take the means of production and put them in the hands of the people" by saying, "I dig absolutely." Whoops. Partisans contend that Bernstein was actually being a smart-ass: Cox had ended his own sentence with "dig?" and Bernstein responded in kind. In any case, the press portrayed him as an elegant slummer, and the affair took years to live down.

But Bernstein was no Hanoi Jane. That party was by far the most notorious of his political outings, and even if he lent his name to many causes and spoke out frequently, he spent most of his time conducting, composing, seducing, and horsing around at the piano with friends. A bit of rabble-rousing actually lends color to such a titan of the culture; we'd even be a little disappointed if his bullhorn was never switched on. Still, Bernstein's business was music, not politics, and Seldes's attempt to reread his professional and creative achievements through a political lens ought to be approached skeptically.

Seldes contributes two things to our understanding of Bernstein's life and art: first, new archival findings about the FBI's monitoring of Bernstein's activities; and second, an argument about the effect of a stifling political culture on his creative output. Bernstein was

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blacklisted by CBS and the U.S. State Department between 1950 and 1954, and the FBI kept track of him for years afterward in hopes of springing a perjury charge for his denial of communist sympathies. He was never indicted, and, unlike many of his contemporaries, he wasn't called to testify before the House Un-American Activities Committee. But he wrung his hands while waiting for an important passport renewal in 1953, and helped himself out of trouble by signing an inane affidavit confirming his patriotism. Seldes portrays these events as devastating—the passport imbroglio created a "living hell," he writes—but doesn't provide much evidence that Bernstein really thought so. In fact, Bernstein's biographer Humphrey Burton persuasively recounts the passport ordeal as more of a headache than anything else, with Bernstein gushing about the cleverness of his lawyer, "an old Commie-chaser," and saying that "it was worth the whole ghastly and humiliating experience just to know him."

These episodes indeed add to our understanding of Bernstein's life and times, but Seldes undercuts their significance by pointing out that Bernstein knew little of the FBI's activities, which suggests that they couldn't have troubled him much. The author also portrays the 1950s as an insular time that Bernstein soon forgot, "as if the years of repression had never happened." Why, then, do they matter so much? The notion that Bernstein was heavily influenced by political troubles in the 1950s is questionable for another reason as well. His major compositions during that period—the opera *Trouble in Tahiti*; the musicals *Wonderful Town*, *Candide*, and *West Side Story*; the concerto-esque *Serenade (After Plato's Symposium)*; and the Second Symphony, *The Age of Anxiety*—are apolitical thematically, with the exception of an anti-McCarthy jibe or two in *Candide*. (The latter four works are also perhaps Bernstein's best.) Surely a composer who was suffering a living hell because of state repression would have written more music about the experience.

This leads to Seldes's other contribution: the novel thesis that Bernstein never produced his elusive masterwork late in life because "the dynamics of the American political culture ... may have stultified or helped stultify his ambitions." In particular, Seldes points to Ronald Reagan's ascendance as a sort of last straw; when Reagan won the presidency in 1980, "the potential source of inspiration for Bernstein's long-sought masterpiece, pointing audiences to a revival of their long-buried progressive ideas, disappeared." This argument—blame it on the Gipper!—is necessarily the product of speculation, and it has other drawbacks, too. Start with its premise, that Bernstein never produced a masterwork: what about *West Side Story*? And if Bernstein's pen dried up during the second half of his life, the more plausible explanations are that he exhausted himself by accepting too many conducting engagements—a point borne out repeatedly in his correspondence—and that, like many an artist, he produced his best work early on.

Still, Seldes may be on to something in arguing that Bernstein searched in vain for a political muse as the country shifted to the right. He was a thoroughly political animal, and during Reagan's morning in America found himself in an inhospitable wilderness. Where the author goes wrong is in assuming that political inspiration could have helped Bernstein write a masterpiece. On the contrary, we should be thankful that he did more conducting than composing during his golden years, for his weakest works are consistently his late-term, preachy, overtly political extravaganzas, like the Third Symphony, *Kaddish* (1963), the hit-or-miss *Mass* (1971), and, most of all, the disastrous *1600 Pennsylvania Avenue* (1976), which sought "to survey the practice of slavery and racism over the course of American history by focusing on the reflections of a black couple that works in the White House for assorted presidents, from Washington through Theodore Roosevelt." How's that for an evening at the theater?

Bernstein's political outrage was not only moralistic, it may have also been too diffuse and unfocused to find a suitable outlet in music. The most poignant and successful political works take precise aim and can hit their target for that reason, like Dmitri Shostakovitch's Tenth Symphony, a passionate tirade against Stalin and an elegy for all lost under him which was bottled up for years and finally released upon the dictator's death in 1953. Bernstein, by contrast, broadly deplored not just racism but "a society consumed with fads and consumer gluttony that was unready to understand or deal with the destitution of the American inner city and was largely uncritical of the latest of twentieth-century catastrophes, the war in Vietnam." Inequality, consumerism, poverty, war: imagine trying to give expression to such a comprehensive despair of the modern predicament in an abstract and symbolic medium like a symphony. It is telling that one of Bernstein's only successful pieces of overtly political music was the plaintive, anti–Vietnam War song "So Pretty," which, rather than cataloging the world's problems, focuses simply and elegantly on one of them, and does so poetically rather than didactically. If diagnosing every political injustice became Bernstein's artistic mission, then it is little wonder that he failed.

But he was not entirely unsuccessful as a political actor. In fact, his greatest political achievement was not to diagnose, but to cure: to champion classical music as a relevant and even hip cultural institution worthy of preservation and celebration. He accomplished this not just in his famous Norton Lectures at Harvard in 1973, his pre-concert talks, or his Young People's Concerts, but also through sheer enthusiasm: those histrionics on the podium may have offended the well-heeled concert-box set, but they thrilled the masses. Under his glamorous baton, the classics were exciting and passionate once more. Bernstein also let the music take him where it would, which in itself was a sort of ecumenical statement about the power of music to heal and transcend. Hence his devotion to the previously unfashionable symphonies of his fellow Jew Mahler; his provocative decision to hold concerts in Germany in the late 1940s, when other conductors were boycotting the post-Reich regime; and his refusal to stop performing Wagner even though it deeply troubled him that he loved an anti-Semite's music. If Bernstein is to be remembered for political activism, let it be for these universalist gestures. Better yet, let him be remembered for the beautiful music he made. WM

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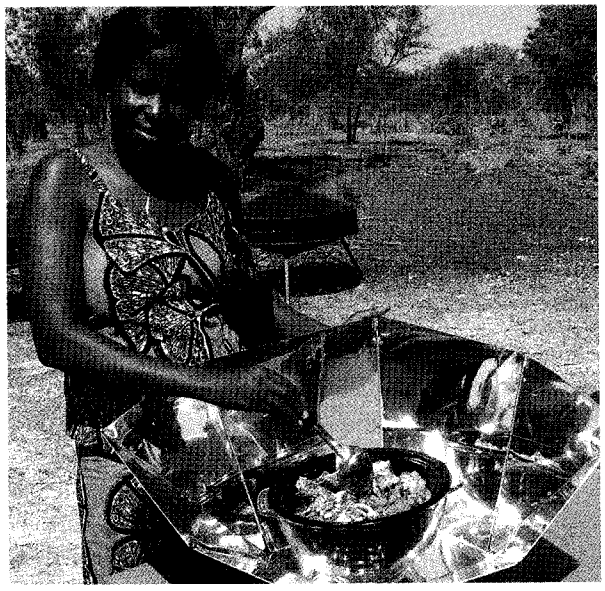

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